The MAGAZINE of WALL STREET

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THE OUTLOOK

The New Loan—Possible Value of German Gains—The Transfer Tax—Light From England's Experience—Market Prospect

INTEREST is now divided between the German offensive and the new Liberty Loan. The latter is discussed in an article in this issue. There can be little doubt that the full $3,000,000,000 will be subscribed, and the only thing that may prevent a large oversubscription is a general assumption that the success of the offering is assured. This feeling of confidence might lead some large capitalists to cut down their subscriptions with a view to being in a stronger position to participate in the next following loan.

This feeling, if it should exist, would be a mistake. Exactly the contrary view should be taken—that a large oversubscription now will reduce the amount which the Government will have to ask for in the next succeeding loan. In applying our Labor-power to the war, and in cutting down our consumption of luxuries, we have been inexcusably slow. There is still less excuse for slowness in the one place where we are strongest—supplying the necessary funds.

What Is the Value of German Gains?

GERMANY has retaken from the Allies—for as yet American troops are scarcely a factor—practically all the territory that had been gained during the last two years, and at some points has broken over the old line established after the Battle of the Marne. What is the significance of this situation?

Various writers call attention to the seriousness of the possibility that Germany may succeed in breaking through to the coast and thus separating the French and English armies so that each can be dealt with to a certain extent alone. The military expert of the *Times*, for example, whose analysis of the situation has usually been as good as any, showed last Sunday the decided military advantage to Germany of such a success if it should be obtained. It will not do to ignore this possibility.

On the other hand, a feeling of security seems to pervade the high commands of both the British and the French, and it is currently reported that German losses are double those of the Allies. From the very first, the purpose of the Allies has been, not to win territory or even to hold it except as strategically necessary, but to kill Germans. Their constant effort has been to keep their own losses as far as possible below those of the Teutons. It is quite probable, therefore, that General Foch wants the Germans to continue their attacks and that he is delaying any counter-offensive because a defensive attitude is less costly in men.

The Transfer Tax

A THIRD factor, of relatively minor importance in its effect on the market, is the new interpretation of the stock transfer tax discussed elsewhere in this issue. The natural effect of this has been to induce some covering by shorts, but as the short interest has for some time past been too small to be an important influence, the net result has been only a moderate rally in prices.

In so far as this tax limits short sales it will weaken the technical position of the market. As a rule, whenever investors for any reason become alarmed and dump stocks in quantities the shorts are the first buyers—since it takes far less courage to buy for the purpose of turning a profit into cash than it takes to enter into a new buying commitment in the face of weakness in prices.

It is very undesirable that the technical position of the market should be undermined in this way during the war, and it is certainly to be hoped that the courts will reverse this ruling, which, whether or not it is according to the letter of the law, is certainly contrary to common sense.

Comparison with England's Experience

THERE has been a close similarity between the general behavior of our markets since we entered the war and the action of English markets during her first year of war. British securities at first fell rather rapidly. After a year and a half of war, a slow rally began in industrial issues, but this was more than overbalanced by a further decline in bonds, rails and public utilities, so that the general average of English securities has drifted slowly downward to date.

There are several important differences between our position and that of England. Our general price level was relatively high when we entered the war, while England's was not, hence our prices had further to fall. Our first year's war expenditures, including loans to our allies, have been larger in proportion to resources. And we have carried the policy of price limitation considerably further.

On the whole, these differences cannot be said to be in favor of our investment position. So far as the analogy applies, therefore, it does not point to anything more than minor rallies in the general level of our prices.

It is also to be noted that commodity prices and the cost of living are still climbing in England, after nearly four years of war. Measuring by the *Economist's* Index Number, the advance during 1915 was 27%, during 1916 46% (still using the end of 1914 as the base), during 1917 36%, and a further rise has already been recorded in 1918. Our own commodity price movement has so far been similar and it will be a very difficult matter for our price-fixers to prevent a further advance.

High Grade Investments

AS we have several times predicted, the prices of our bonds and the highest grade investment stocks are showing strong resistance to the further draft on capital involved in the Third Liberty Loan. The general level of bond prices has remained practically stationary for a month. High grade rail and public utility bonds are near their lowest level, but second grade rail, and industrial bonds are mostly two or three points above the bottom.

We believe any further possible decline in securities of this class will be slight. The low price level increases resistance and the War Finance Corporation will aid in preventing exorbitant yields for new security offerings. On the other hand, a real peace prospect may come when least expected and would unquestionably bring a prompt response in the bond market.

Prospect for Stocks

RAILWAY stocks, aided by the Government guaranty of earnings, may be expected to hold their own relatively well, but we still do not see any bright prospect for advances in industrial and speculative issues. Price limitations, heavy taxation, rising costs and the restriction of non-essential industries, all work against securities of this class during the war, and the extensive readjustments immediately following peace would help but few of them.

April 8, 1918.

Our Point of View

On Vital Factors in Finance and Business

"Whither?"

IN connection with the articles on inflation, the last of which appears in this issue, some recent figures are suggestive. For example, the world's gold production for 1917 fell off over 6% from 1916. Gold is cheaper—that is, will buy less—so there is less inducement to mine it.

Again, the proportion of the deposits of English joint stock banks to their capital and reserves has risen as follows:

1905	7.65	times.
1910	8.90	"
1915	12.13	"
1917	16.17	"

And the latest statement of the Bank of France sheds an illuminating side light on the condition of that country. Within a year bank notes in circulation have increased 35%; discounts (corresponding roughly to our bank loans) have risen 116%; advances to the state for war, 47%; treasury bonds based on advances to foreign governments, 58%.

In Germany the interest charges provided for on Government obligations in the yearly budgets have been as follows:

1914-15	$ 44,000,000
1915-16	292,000,000
1916-17	569,000,000
1917-18	851,000,000
1918-19	1,440,000,000

One does not wonder that the German people are anxiously asking "Whither?"

* * *

Naughty Bears Caged at Last

The U. S. war tax on stock transfers provides, in that light and lilting language so loved by lawyers, for a tax of two cents on each $100 of face value "on all sales or agreements to sell, or memoranda of sales or deliveries of or transfers of legal title to shares or certificates of stock in any association, company, or corporation, whether made upon or shown by the books of the association, company, or corporation, or by any assignment in blank, or by any delivery, or by any paper or agreement or memorandum or other evidence of transfer or sale, whether entitling the holder in any manner to the benefit of such stock or not."

The Solicitor of Internal Revenue has concluded that this is broad enough to cover the lending of stock certificates for delivery on short sales, and the Commissioner holds that the tax is retroactive since Dec. 1, 1917.

The idea seems to be this: The buyer of the stock gets legal title. The ordinary short seller, however, has no legal title to give, since he has no stock except as his broker borrows it for him. Hence the legal title to that particular certificate must lie in the broker who borrows it—otherwise he could not give the buyer legal title. And if the broker who borrows the certificate has legal title, the broker who lends it to him must also have had legal title and must have transferred it to the borrower. And such a transfer of legal title is held to be taxable under the law.

* * *

$2+$2+$2+ $2+$2+$2+ $2+......?

But suppose the lending broker demands back his certificate, or another one like it. Then the borrowing broker must return one—paying the $2.00 tax—and borrow another from somebody else—with another $2.00 tax. This might happen again and again, so that $2.00 taxes would keep piling up so long as the short stock was outstanding. The short seller might be able to stand the $8.00 tax per 100 shares that would be due in any case ($2.00 to New York State, $2.00 to the U. S. on the sale, $2.00 on the borrowing of the stock, and $2.00 on its return) but he could not stand the possibility of an indefinite number of borrowings. And the active floor trader, who buys and sells for fractional profits, could not stand even the first $8.00.

The tax is an absurdity unless it is desired to tax short selling in floor traders out of existence, and that certainly was not the intention of Congress in passing this law. A test case will doubtless be brought before the courts for adjudication.

The short seller for the "long pull," however, need not feel undue alarm about the tax, for with the very small amount of short selling now going on it will usually be easy enough for the broker to borrow a certificate which he will not have to return, thus keeping the tax down to $8.00, or less than one-twelfth of one per cent of the par value of the stock

Why Is a Floor Trader?

The floor trader, or professional speculator for short turns, is perhaps the last appreciated of mortals. His "economic function"—to use much larger language about his business than he would ever use—is never understood.

An investor finds that the market for Union Pacific is 120 bid, 120¼ asked. If he buys, and pays 120¼, he is vaguely dissatisfied because he did not get it at 120; and if he sells at 120 he has a sort of feeling that he ought to have got 120¼—such are the peculiarities of human nature. He has an idea that the floor traders have "skinned" him out of ¼. But if there were no floor traders Union Pacific would probably have been 119 bid and 121 asked, just as Woolworth, in which there is just now no speculative trade, was at the close yesterday 111 bid and 115 asked.

The floor trader's service to the public is that of making a market. In the inactive stocks, where there is not business enough to attract active operations, the same service is performed by the specialists, but at a much wider difference between bid and asked prices. The public as a whole gains nothing by taxing the floor traders. They should, in fact, be free of even the regular transfer taxes paid by outside investors, because the nature of their business is such as to make those taxes unduly burdensome.

* * *

Usefulness of Short Selling

It is equally true that the economic function of short selling is not understood. Without attempting to outline it in full, we may say that it balances the market, tends to reduce extreme fluctuations, affords support in panics and healthy restraint in booms, and narrows the spread between bid and asked prices for active stocks so that investors can buy a little cheaper and sell a little higher than they could if short selling were abolished.

One of the best things that could happen to the market would be a willingness on the part of the public to participate on the short side just as readily as on the long side. That would help to put an end to the one-sided, "over-bought" booms in various stocks which so frequently carry them far above their genuine investment value, and would likewise afford invaluable support in times of extreme weakness. It would probably result in a slightly lower general average of prices, because the "floating supply" of stocks would be somewhat increased by short selling. If so, that would benefit the investor for income, since he would then obtain a higher interest yield on his investment, while speculators would quickly adjust themselves to the new conditions.

* * *

Holding Our Foreign Trade

For the last three years our export trade has been limited only by the shipping available to carry it. After the war much more shipping will evidently be obtainable, but we shall still lack adequate facilities for giving credit to foreign buyers. The National City Bank has taken a step in this direction by establishing several branches in South America. Now comes the Foreign Trade Banking Corporation, recently chartered at Albany, under the management of Max May, formerly the foreign exchange expert of the Guaranty Trust, and having the backing of Gaston, Williams & Wigmore. This new financial institution will deal in bank and trade acceptances for the purpose of fostering export business.

The Federal Reserve Banks rediscount certain kinds of paper for their member banks, and that is a great step in advance; but the new company will offer much wider rediscount facilities to both banks and private individuals in connection with foreign trade. Everything indicates a vigorous development of our export business after the war.

* * *

Don't Paint the House Now.

Governor Strong, of the N. Y. Federal Reserve Bank, asks banks to curtail loans to their customers for all improvements not aimed at increasing production needed for war purposes. He says that "we must not consume at home the supplies needed by our armies at the front." Sound and courageous advice. The banks must hew to this line, sternly if need be.

That they are doing so in the main is shown by the falling off in the output of new securities. The total of all kinds for the first quarter of 1918 was only $295,000,000, a decrease of nearly $370,000,000 from the corresponding quarter of 1917. For the second quarter the falling off will be still greater, except as the Government, through the War Finance Corporation, aids in furnishing capital for business necessary to the war.

The New Liberty Loan

How It Compares with Previous Issues—Special Conditions —Convertibility—Probable Future Price

PRACTICALLY all the readers of THE MAGAZINE OF WALL STREET will be subscribers to the new Liberty Loan, from motives of patriotism and because it is an exceptional investment.

The third issue of Liberty Loan Bonds offers 4¼% per annum for the use of money. This is the highest rate of interest being paid by the government of the United States on any of its outstanding bonds, and is the highest rate paid upon any bonds that the government has issued since the Civil War decade. It is a more liberal rate than can be obtained from deposits in conservative savings banks, or from any other source where the risk of principal is reduced to the absolute minimum.

The requirements of the United States Government, so far as they were provided through the sale of bonds, for the successful prosecution of the war with Spain, were oversubscribed at 3% interest. The Panama Canal was constructed by the United States in times of peace in part through bonds issued with interest at 2%; yet when these loans were made, the government was not as favorably situated for borrowing as now. Business was not as prosperous, labor was not so fully employed, wages were not so high, fewer people owned their own homes, and deposits in the banks were far below what they now are. A large oversubscription to the present issue of Liberty Loan Bonds may help in continuing and perhaps even in improving this condition of prosperity.

Secured by all property in the United States, no matter by whom owned, upon which taxes can be levied, also secured by the earning power of all business with a lien on incomes of individuals, Liberty Loan Bonds have absolutely the strongest security the world affords, and no particular appeal to the patriotism of business people or those experienced in the investment of money will be necessary in order to encourage large subscriptions.

The amount of new bonds now offered will be $3,000,000,000, not convertible into future issues. Five per cent of the loan will be set aside for a sinking fund to maintain the price at or near par. Tax exemption features are the same as those of the Second Loan. The bonds are of shorter maturity than the First and Second Loans, being dated May 9, 1918, and payable September 15, 1928.

Six Liberty Bonds

This will give us, through conversions, six different Liberty Bonds, as shown in the table herewith. But the only difference between the First Converted 4s and the Second 4s is in the date of maturity, and the same will be true of the First Converted 4¼s, Second Converted 4¼s, and the Third 4¼s. The different varieties arise through the fact that all the converted bonds retain the same date of maturity as before conversion.

VARIETIES OF LIBERTY BONDS

	Rate	Matur.	Price About	Yield About
First Liberty Loan	3½	1947-32	98.80	3.55%
First Converted...	4	1947-32	96.25	4.22
Second Lib. Loan	4	1942-27	96.25	4.24
First Converted...	4¼	1947-32	100.00	4.25
Second Converted	4¼	1942-27	100.00	4.25
Third Lib. Loan..	4¼	1928	100.00	4.25

The two special features of the First 3½s —complete tax exemption, even from income supertaxes, and convertibility into *any* future issue—make them attractive to persons of large income and also to those who believe that before the war is over it will become necessary to raise the rate of interest on Government bonds above 4¼%. That is, of course, why they sell to yield 0.67% less than the 4s, and a similar difference is likely to continue.

The 4s are now selling to yield substantially the same rate as the 4¼s will yield at par. But since the 4s are convertible into the 4¼s at par, and the 4¼s are to be provided with a special fund to maintain their price, why do not the 4s rise to par?

The answer is that there is a tremendous volume of the 4s outstanding, including the

First Converted 4s, and there are many factors entering into their market price which have nothing to do with investment values. For example, many persons who want to make a showing of patriotism in subscribing to the new issue are selling their 4s to give them the necessary funds. The 4s have advanced from a low of 94.70, a rise of about two points, on the prospect of conversion into a supported bond, but since it takes a lot of buying to move them, and the new loan will involve a heavy drain on investment capital, they may be slow in reaching parity with the new 4¼s.

Three Important Factors

The investor will now have a considerable choice in the way of Liberty Bonds. What are the special advantages of the different issues?

That depends on three factors:

(1) The duration of the war.

(2) Whether the bonds will be redeemed before maturity.

(3) How soon Government credit will recover after the war.

In addition, the First 3½s have special advantages already pointed out above.

A long war might require a further advance in the rate of interest on future loans; but since in that case the appeal to patriotism would become stronger and stronger as the war continued, it is likely that any further increase in the rate would not be more than a fraction of 1%. Some believe that 4¼ can be established as a permanent rate throughout the war.

The probability of bonds being redeemed before maturity decreases with each additional flotation of a new issue. On the present war outlook, early redemption is not a thing that the buyer should bank on very strongly.

But the recovery of Government credit after the war is almost a certainty. It is reasonable to assume that Government credit will be on as good as a 3½% basis when the Third Liberty Bonds mature and for the First 3½s we might assume, perhaps, a 3% basis. In that case the several issues would be selling as follows:

First 3½s	107
First Converted 4s	107
Second 4s	105½
First Converted 4¼s	110
Second Converted 4¼s	108
Third 4¼s	100

A good prospect for redemption of the first five issues before maturity would, of course, reduce these prices. Nevertheless, under these conditions it would certainly seem that, if the 4¼s are held at par, there ought soon to be an advance in the market prices of the issues now traded in.

It is to be assumed that practically all the 4s will be converted into 4¼s, since there will be no apparent advantage in holding them unconverted, as there is in the case of the 3½s. These converted 4¼s will be a wonderfully good security. They are going to have a sinking fund behind them, and including the advance in the price which may naturally be expected in the next ten years they would give the investor who has only an ordinary income tax to pay substantially a 5% yield for that period.

Do not be guided strictly by the investment schedules of the institutions that buy large quantities of bonds—institutions such as insurance companies and savings banks. A large part of their investments are either very low yielding or comparatively low yielding securities, and are selected in conformity with the laws affecting such investments. Some ideas of variety may be gleaned from such lists, but generally speaking, the income is lower than a private investor can obtain with a satisfactorily high degree of safety.

Examine carefully the title of a bond that contains the word "First." The presence of this word does not necessarily mean that the bond has a very strong first lien on a large part of the property—the lien may be first on a small part only, and may be very far removed from first on the greater part. Again, this word in the title may indicate that the mortgage is the first of its kind the company has made, and may have no direct reference to the character of the lien, as for instance, "First Consolidated" or "First Collateral."

LITTLE SKETCHES OF BIG MEN

No. 3

Wall Street's "Silent Man"

The Late James Stillman and the Important Part He Played in the Financial World—His Achievements and Characteristics—A First-Hand Pen Picture

By BARNARD POWERS

ALL night long on the fifteenth of March, lights burned in the upper story of an unostentatious but solidly magnificent mansion on the north side of 72d Street just off Fifth Avenue, in New York City. The early morning roysterer may have caught the faint gleam as he taxi-cabbed homeward, and the Holmes policeman patrolling his lonely beat kept a careful eye on the scrolled and mullioned front. But neither knew that before the rising sun had touched the greening grass in Central Park, a block away, another of the "Old Guard" of Wall Street had gone on the last, long journey.

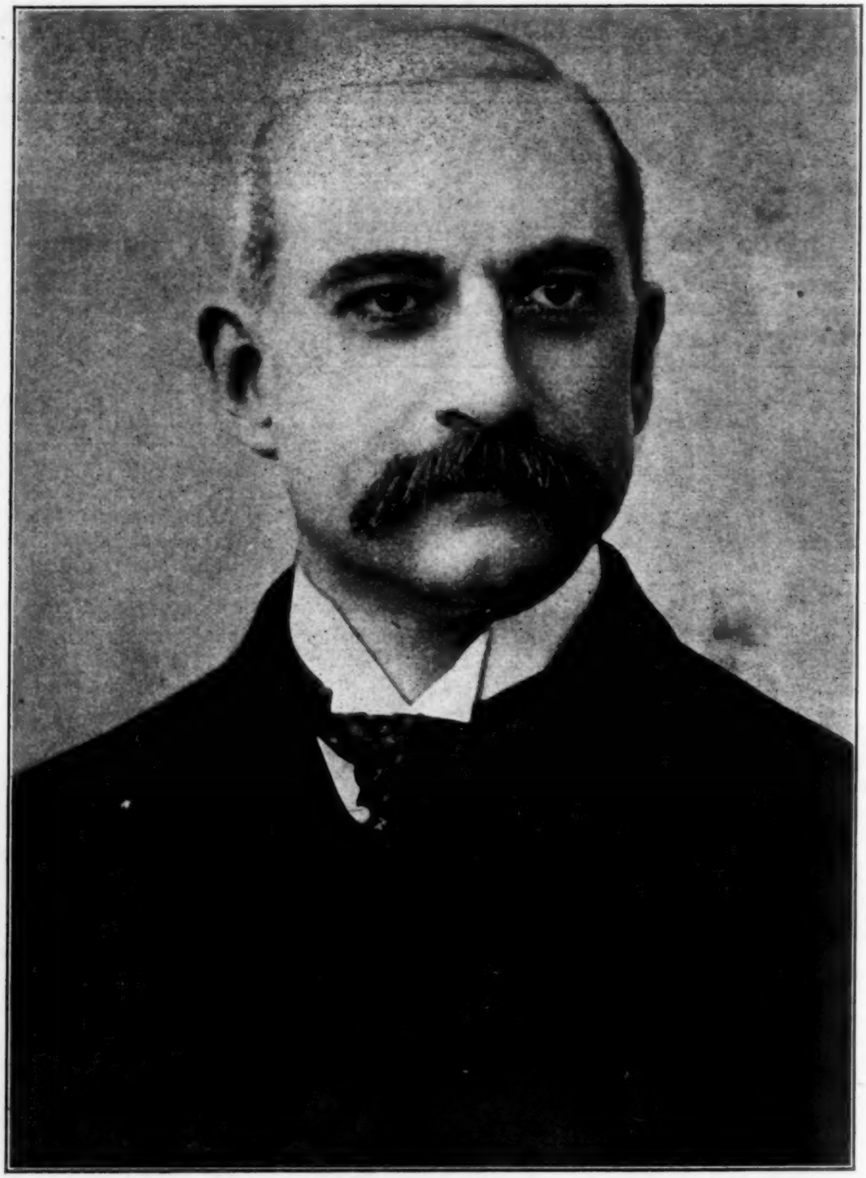
James Stillman died as he had lived—in complete seclusion. Only his closest associates knew that he had been in failing health and that the heart which had beat steadily and true for nearly threescore and ten years at length was on the point of giving up its task. Hence there was no throng of reporters on the Stillman threshold that night, and the first intimation the world had of Mr. Stillman's demise was when it read the brief notice in the newspapers.

James Stillman disliked intensely the flare of publicity. His title of Wall Street's "Silent Man" was well earned. Although actively identified in the great banking and industrial growth of the country for the last half century, and as the moving genius of the great National City Bank, wielding a power which but few men have possessed, he never made speeches, his picture never appeared in the public prints, his comings and goings were unheralded and the name Stillman was conspicuously absent from the society columns of the dailies. He wrapped an impenetrable robe of reserve about himself and in this respect he was "old-fashioned," as a business associate recently put it to the writer. But Mr. Stillman belonged to the "old school," the school of the Morgans and the Rockefellers, which believed that an individual was obligated to make public only such facts as it suited him to give to the public.

When Mr. Stillman first entered the portals of the new National City Bank (whose main floor interior is shown in the photograph which accompanies this article) he walked straight through the rotunda, without a single glance to the right or left. He had never been inside this new bank before, but there was no pause to inspect nor even a glance of appraisal. He went directly to his desk, for he knew from studying the plans where that desk was situated. There he remained until he had finished the day's work.

To the world in general he presented an adamantine front. Slender, dark eyed, quiet, courteous, always alert, brief spoken, he conveyed an air of austerity which disconcerted the boldest interviewer. He was the despair of the newspapermen. When the financial editor would say, "See Stillman and try and get him to talk," the recipient of the message would groan inwardly, for he knew that even if he was able to see the former president of the National City Bank, the information he would get could be put into the briefest paragraphs. The less the press talked about him the better Mr. Stillman liked it. "Let my work speak for itself," he once remarked, and that antipathy, even hostility, toward publicity, lasted for the greater part of his life.

In that attitude Mr. Stillman undoubtedly



JAMES STILLMAN

Whose intense dislike of the limelight caused him to be known as Wall Street's "Silent Man." He was a member of a famous triumvirate the other two members of which were H. H. Rogers and William Rockefeller. Under his direction the National City Bank attained the position of the leading financial institution in America. Although regarded, at least until late years, as reserved and unemotional by the world in general, he was in reality a lover of children, a connoisseur of art and a generous philanthropist. He was a man who, like the late J. P. Morgan, regarded his word as inviolate and his business integrity as his greatest possession.

made a mistake. Without question he realized it in the later years of life. He had acquired a reputation for frigidity and unresponsiveness which in truth was not a reflex of his real nature. Little by little the world has come to see and appreciate the real James Stillman, his passionate fondness for children (in Paris he acquired the nickname of "Monsieur Bonbon," because it was his custom to carry a stock of sweets in his automobile and distribute them en route to the youngsters) his love for art—and to appreciate art one must have a warm soul—and his many gifts to charity, all of which were made in the quiet Stillman manner, and the total of which will never be fully recorded. Last Christmas he sent his personal check for $100 to every employe of the National City Bank earning less than $1,000 a year, but to unearth some of his charities one must delve long and deeply, for though James Stillman is dead and in his grave, his mandate of silence still hangs heavy, and the last place in the world to go to obtain information about that quiet man is the National City Bank.

Why Stillman Was Silent

The truth of the matter is that James Stillman was an extremely sensitive and a *shy* man. It is one of the little jokes of Fate that every once in a while she picks an individual of an intensely retiring temperament to play some great part in the world's work. But although he handled millions as other men handle dollars, backed big enterprises and sat in the game with the great brains of the country, he nevertheless trembled when the spotlight searched him out.

"I never entered a board meeting without a feeling of apprehension," he once confessed. Frequently attacked, and unjustly, he found it easier to bear the slanders than to further focus public attention upon him by denying them. In this respect he was extremely like John D. Rockefeller, two of whose daughters married two of James Stillman's sons.

His Early History

James Stillman was marked from the first with the star of success. He was born at Brownsville, Texas, in 1850, but was educated in the public schools of Hartford, Conn. His business ability was inherited from his father and grandfather, the latter being a shipping merchant of the old before-the-war days, when merchants like Moses Taylor owned their clippers and sent them scudding around the world. Although Charles Stillman, the father of James Stillman, spent some years of his life in Brownsville, Texas, he had re-established his home in Hartford, Conn., before the outbreak of the Civil War, and hence before young James was sixteen years old. When the boy was eighteen years old he went to work for his father's firm of Smith, Woodward & Stillman, and at 21 he was admitted as a full fledged partner. The firm, which later became Woodward & Stillman, cotton commission merchants, had a long, substantial and highly successful career. It is only within the last year that the name Woodward & Stillman disappeared from the door leading to the firm's offices, at 22 William Street.

As a large purchaser of Texas cotton, the concern naturally did considerable business with the banks, and Mr. Stillman became acquainted with Moses Taylor, the greatest merchant of his age, and president of the City Bank. The friendship thus formed lasted a lifetime, and was of the greatest advantage to the young and ambitious Stillman. In later years he said that he owed more to Moses Taylor than to any one else in the world.

When Mr. Percy R. Pyne, who succeeded Mr. Taylor as president of the bank, resigned in 1891, Mr. Stillman was the logical candidate, was elected its tenth president, and held the position for eighteen years, until he retired in 1909, when Mr. Frank A. Vanderlip was appointed his successor.

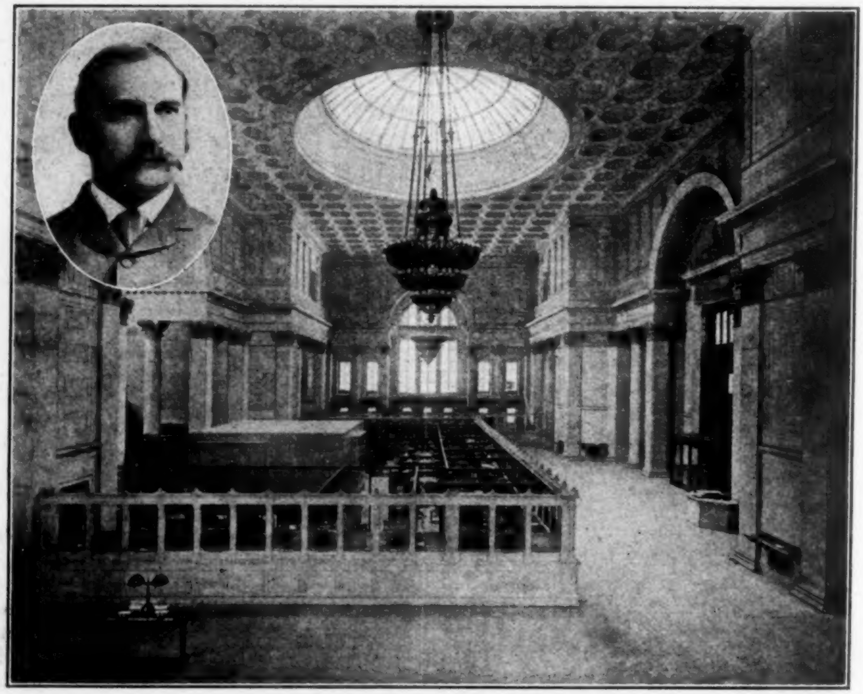
Troublous Times

The first seven years of the Stillman incumbency were exceedingly trying ones in the banking and industrial worlds. A long period of railroad expansion and industrial inflation found its culmination in the disastrous panic of 1893, and the free silver agitation which followed paralyzed confidence and unbalanced credits. With this country finally on a firm gold basis and victorious in our war with Spain, came the dawning of a new era, which James Stillman foresaw clearly enough. To see

was to act. While the rest of the banking world was debating and tetering, he boldly raised the capital of the National City Bank from $1,000,000 to $10,000,000 in 1900, and in July of 1902 he increased it to $25,000,000.

The decade which preceded the panic of 1907 was a golden one in American finance. It was an age of great industrial development. Harriman had gambled on the great west, and won. The long years of building by the Standard Oil Company were returning a golden tide of profits which each year became amazingly greater. The great copper consolidation of H. H. Rogers and the great steel combination of J. P. Morgan were but outgrowths of an era of feverish and unprecedented development. In all the great activities of that astonishing period Mr. Stillman played an unobtrusive but important part. The National City Bank came to be known as a Rockefeller institution, and no group of financiers had the temerity to put forth any big scheme of development without obtaining the cachet of approval from the powers behind that great institution.

James Stillman, a rich man when he became president of the National City Bank, accepted that position more from sentimental reasons than for business considerations. When he assumed control it was a one-horse affair, with a surplus of less than $3,000,000. It became his ambition to make the bank a great national institution like the Bank of England, and he succeeded. By 1906 the bank's surplus totaled nearly $21,000,000, and in 1909, the year of Mr. Stillman's retirement, more than $30,000,000. On December 31 last the National City Bank had assets or "resources" totaling $812,000,000 in round



Interior of National City Bank which employs 1,500 persons. The picture of James Stillman in the upper left hand corner was taken about twenty-five years ago, when he was the active head of the bank.

figures and a surplus and undivided profits of approximately $41,000,000.

Stillman in the 1907 Panic

James Stillman has been dubbed "old-fashioned" and "ultra conservative." He was both, and he made it pay. If he had been born a couple of centuries ago in a New England frontier town he would have been one of the kind whose powder would always be found to be dry.

When the 1907 financial storm broke loose the National City Bank breasted the gale like the rock of Gibraltar. In the height of that fell October a prominent broker who had known Mr. Stillman for years rushed down to plead for assistance.

"Jim," he gasped, excitedly, "the whole Street's in an awful mess. There's no money to be had on call or time at any price."

"Is that so?" responded Mr. Stillman, without moving a muscle or raising his voice.

"So—— It's the truest thing I ever said. If this goes on for another twenty-four hours there won't be a solvent house in the Street."

For a long minute Stillman sat silent, his narrowed gaze apparently fixed on some distant object out of the window. Then he rose quietly.

"Let's go see Morgan," he said, reaching for his hat.

The rest is history. Stillman's visit to the "House-at-the-Corner" resulted in the releasing of $10,000,000 in gold on the money market and the stemming of the panic tide. He never claimed any credit for his part in checking that disastrous panic. It was not his way. He did his work quietly and well. That was his way.

Retired at 59

In 1909, although in excellent health, and only 59 years of age, which is youthful for a banker, James Stillman retired, or, as he put it, "died in a business way." This, it seems to me, is a convincing answer to the inaccurate statement so often made that he was but a "money-machine," that is, a man whose chief pleasure in life was money making. The story is current that he told H. H. Rogers and William Rockefeller who, with Mr. Stillman, had formed a financial triumvirate for years, that he intended retiring, but that the other two announced they intended going on. From that time on his time was largely spent abroad, with his headquarters at Paris. In his charming house in the Park Monceau he assembled a notable collection of art, which is valued at upward of $1,000,000. It included two Titians, a Rubens, a Vandyke, two Rembrandts, a Watteau, a Goya, two Fragonards, a statue attributed to Praxiteles, a bust by Houdon and a portrait of himself painted by von Kalbach.

It is pleasant to think of him in the last mellow years of his life as absorbed in his art pursuits, motoring over the smooth roads of France, the staunch friend of the children, enjoying real rest and mental relaxation after his years of attention to business. Although he no longer personally managed the bank's affairs he was in closest touch with it at all times, and the warmth with which he regarded that institution is seen in the provision of his will, directing his executors not to sell his holdings of the bank's stock unless in their judgment it be deemed absolutely necessary.

But it was destined that he die in the harness. When the war broke out and the fair French roads began to become grooved by rumbling artillery, he still remained abroad. He turned over his mansion to the French government for a hospital, and gave President Poincare $200,000 for the support of orphans of members of the Legion of Honor. When it became evident the United States would be drawn into the fray he perceived that there was work to be done at home, and he returned to this country. He took active charge of the bank's affairs, when Mr. Vanderlip, its president, went to Washington to handle the Government's war-savings campaign.

Mr. Stillman's return to America was quiet, as always, and it was weeks before even the banking fraternity found out that the man who had reared the National City Bank to its present greatness, was at the helm again.

As I have stated earlier in this article, it is impossible to ferret out the sum total of the Stillman charities. The students of America's greatest university have him to thank for the modern and thoroughly equipped Stillman Infirmary which looks

out over the lazy Charles River in Cambridge, Mass. In 1905 he gave $100,000 for the maintenance of the American Academy of Fine Arts in Rome. The following excerpt from the resolution adopted by the directors of the National City Bank following Mr. Stillman's death, gives a good idea of the man and the manner in which he was regarded by his associates:

> Mr. Stillman was a man of remarkably well-balanced judgment. Although he was conservative, he was receptive to new ideas and prompt in decision, when confronted with new situations. His determination, to which allusion has already been made, to greatly increase the capital of the Bank, when the turn to prosperity came after the long depression from 1893 to 1898, was a striking example of the prescience which characterized his career. He possessed the unusual powers of concentration and resolution, which make a strong, unswerving personality. He had great faith in the future of this country and of New York City. He was a constructive business man; his investments were made and his gains achieved in railroad, industrial or commercial enterprises. He had the most scrupulous sense of business honor and good faith and the highest sense of public responsibility in the conduct of the Banking business. His intellectual interests were broad, including deep appreciation of the fine arts and ready sympathy with activities in behalf of social amelioration and progress. He gave generously but quietly for public and philanthropic purposes. He was modest, simple and reserved in manner, preferring to avoid public attention and comment, but he was a warm, devoted and faithful friend and an earnest, public spirited, patriotic American citizen. His nature was grave, earnest and sincere, with great depth of sentiment for the persons and objects near his heart, and among the latter, The National City Bank held first place. His devotion to it became a master influence in his life. No labors were too exacting that would contribute to its growth and prestige. It was more than a business to him, it was a living institution, with possibilities of growth and usefulness, which awakened his enthusiasm and inspired in him almost filial regard.

The Wall Street guessers had a good time speculating on the size of the Stillman fortune, their estimates running from $100,000,000 to $300,000,000. They knew as little about it as they did about the man himself. Mr. Stillman left a fortune of approximately $50,000,000. Had he been of a speculative type he doubtless could have amassed one several times as large, but I hardly think that would have interested him. Long ago he perceived that the purchasing power of money has a definite limit and that more money means more responsibility and no more happiness—on the contrary, less.

INVENTORY OF THE BRITISH EMPIRE

In preparation for the intensive development of her resources, Great Britain is taking what is probably the most remarkable inventory ever attempted. Under the general direction of the Ministry of Reconstruction, the Ministry of Munitions, Department of the Foreign Office and Board of Trade, and other governmental agencies, nearly a hundred committees are busy collecting information regarding agricultural, mining, industrial and commercial conditions within the empire.

The inquiries of these committees touch the life of the British people in all its phases. Wherever the British flag waves these committees are saying to men, women and children: What can you do? What can you make your mines, your farms, your orchards, your plains, your forests, your seas and rivers and lakes do? Have they ever produced wealth? Can they be made to do so? Upon the answers will be founded the principles to which the British people will be asked to adhere in rebuilding the means of prosperity that war has destroyed or disorganized. In addition to these inquiries by committees sanctioned by the Government, other investigations are being made upon the intiative of individual manufacturers or merchants.

MONEY--BANKING--BUSINESS

Effect of War Inflation on Business and Investments

III — Prospects During Remainder of the War — Europe After the War—Paper Money—How Deflation May Be Accomplished—Peace Outlook for Trade and Securities

By G. C. SELDEN

THE facts brought out in the two previous articles may be summarized as follows:

Inflation—by which is meant an increase in money and in bank deposits out of proportion to the increase in business to be handled—has already been carried to the danger point in Russia and in Austria, has become a serious problem in Italy, France and Germany, is an important factor in England, and is clearly to be noted in the United States.

The United States, because of the concentration and more economical use of our greatly increased gold holdings, is not likely to issue irredeemable paper money; but while the war lasts inflation in the form of rising bank deposits and loans and more currency based on rediscounted commercial paper, is practically certain to continue.

Inflation is always (not month by month, but in a broad way) accompanied by a rising scale of commodity prices, and war has always been accompanied by inflation and rising prices. A period of rapid inflation is accompanied by activity in general business. When the inflation ceases to increase there is a falling off in activity but by no means a collapse.

The above expresses in the briefest possible form our principal groundwork of facts. What further conclusions can be deduced?

During the War

First, what will be the effect of inflation on American business and investments during the remainder of the war?

We shall, it seems clear, have generally active business conditions while the war lasts. Inflation will not be the primary cause of activity—that cause will be the big demand for war supplies and war work—but inflation will be one of the ways of helping to promote activity. Its purpose will be to lubricate, or to render more elastic, our machinery of production. More money and more credit will not directly increase the labor-power of the nation, but they will help in preventing idleness by insuring the freer working of the industrial machine, by facilitating any necessary readjustments and by hastening the transfer of labor from one department to another.

Hence, although inflation, in this case at any rate, will not be the cause of activity, it will nevertheless be true that the same degree of activity could not, in any practical way, be maintained without inflation. We need just the degree of inflation which will keep the wheels running smoothly, and no more, for beyond that point inflation is an evil. The solution of this delicate problem will devolve for the most part on the Federal Reserve Board, and it cannot be expected that a perfectly accurate balance will be at all times maintained. The Federal Reserve Law itself is so drawn as to insure a fair state of balance. When the money rate rises above 6 per cent. the increased issue of currency through rediscounting will bring about a sort of automatic inflation, which will in turn tend to disappear with a fall of the money rate.

The Government's price-fixing policy tends to retard inflation—since less money

is needed to handle products at lower prices—but cannot entirely prevent it because all prices cannot be fixed. And in the event of a long war it will be found necessary to raise the fixed price limits from time to time because of the rise in un-fixed prices and wages.

Inflation, considered apart from other influences, will have a tendency to support the prices of high grade securities having a fixed interest or dividend return, because it tends to prevent money rates from rising as much as they would without inflation. Here, however, the effect of inflation *will be balanced against the Government's big demand for capital.* The big war loans will of course tend to raise the interest rate on capital and thus to depress bond prices in general and the prices of preferred stocks whose dividends are at the same time fixed by charter and insured by large earnings. Inflation, by checking the rise of money rates, will tend to counteract the above influence, but will not wholly neutralize it so long as there is no prospect of the end of the war.

Inflation, considered apart from other crease the earnings on common stocks because of the business activity which accompanies it and which it assists in maintaining. Of that fact there can, I believe, be no doubt. But of course that is only one element in the making of prices. War taxes, Government price-fixing, the rising cost of capital, speculative sentiment as to the duration and result of the war, etc., all enter into the problem.

Europe After the War

The after-effects of the present world-wide inflation, when peace is once more reestablished, present a more complicated question.

What can be done with the flood of paper money in Eastern Europe? How can the tremendous expansion of loans be brought back to normal? What of Government debts so enormous that the interest alone may not be met?

A Government's internal debt represents merely a change in the distribution of wealth within that country. It means simply that some of the people have loaned money to all of the people, as represented by their Government. What disposition is made of these debts after the war will, I believe, have relatively little effect on business conditions. We speak of the people of Germany, for example, as staggering under a back-breaking burden of debt after the war; but they owe all that money to themselves, and they will pay the interest on it to themselves. As a whole they will be neither richer nor poorer as a result of those gigantic interest payments.

Europe will be poor after the war, but not because of its government debts, except the comparatively small part of those debts which have been placed in other countries. Its poverty will be the result of exhaustion and depreciation of property and of humanity, waste of materials and labor in war.

Much the same argument applies to bank loans. They do not increase or decrease the total wealth of the country within which they are made. European governments will do their utmost to prevent, when peace comes, individual failures as a result of the war. Government support will undoubtedly be rendered during the necessary period of readjustment.

The Problem of Paper Money

Paper money, however, presents a very different problem from Government bond issues. Government bonds may have the indirect effect of increasing bank loans, for which they are used to some extent as security, and thus contributing toward inflation; but paper money is in itself a medium of exchange, a measure of value, and a standard of deferred payments. It produces inflation of the most direct and palpable kind.

Confederate paper money became worthless because the Confederacy ceased to exist. But that will not be true of any of the principal nations engaged in the present war. They will continue, and their paper money will represent their promise. How will they deal with that promise? The paper money might be:

(1) Made freely exchangeable for gold.

(2) Exchanged for interest-bearing bonds.

(3) Left in circulation and permitted to seek its own level of value.

(4) Repudiated.

It would not be surprising if we were to see each one of these four alternatives adopted by different countries. American

paper currency will be kept exchangeable for gold, and doubtless that of England can be so handled. France has a tremendous amount of paper outstanding and might conceivably substitute bonds for some of it. It might easily happen that the Bolshevik paper of Russia would be repudiated by a later government. While Italy or Austria might simply leave its paper money to take care of itself for years after the war.

Inflation Will Not End Quickly

Without venturing any predictions as to what may happen in those countries where paper money inflation has already reached the dangerous stage, it is doubtless safe to assert that *in England, France, Germany and the United States a sudden deflation of the currency will not be permitted.* It would mean a check to industry and a sharp fall of prices. No government which is in control of its own destiny will want such a condition to follow immediately upon the severe strain of the war.

We have to remember, also that in this case we shall have a high plane of prices, not in one country alone, but throughout the commercial world and to a considerable extent even in semi-civilized regions. When prices have doubled throughout the world, why not keep them at the new level instead of trying to go back to pre-war conditions? The unsettling effect of the rise was bad enough; but that of the return would be worse still.

There can be little doubt, it seems to me, that legislators and administrators will take that view after the war, because it is so manifestly logical and because deflation is always such a painful and unpopular process. That was the way the situation was handled after the Civil War. We did not resume specie payments until it could be done with little or no reduction in the amount of currency in circulation per capita.

What is most likely to happen in Europe is a permanent increase in the use of paper money, some of it perhaps irredeemable at first, but gradually made redeemable as conditions permit.

There will be less difference between Europe after the war and Europe before the war than might be imagined at first thought. The prosperity of any country depends upon its *productive power in proportion to population.* Financial complications or industrial readjustments cause only a temporary check to production. People go on working because they have to, and their prosperity depends on the amount of goods they produce.

Both Europe's working population and its productive power will have been reduced by the war, but the check to population will also reduce consumptive needs. The balance between the two will not be greatly changed.

The productive power of labor depends on two things: physical capacity of the workers, and the extent to which machinery is employed. In America, England and Germany, the latter has become the more important consideration, from the industrial standpoint. The physical capacity of workmen in Europe will have been lessened by the war through injuries and through the reduction of the proportion of able-bodied men to the rest of the population; but this loss will be partly made up by greater use of female labor. Probably, also, Europe will make a greater use of machinery after the war.

It is likely, therefore, that Europe's production of wealth per capita will be much the same after the war as before. I can see no sound reason for predictions now being made that we shall see a "new Europe" after the war, producing goods for export more cheaply and in vastly greater quantities than heretofore. The people of Europe will be poorer; but they will have about the same working capacity, with some increase in the spirit of co-operation and a gradual increase in their use of machinery.

America's Position

As compared with Europe, the United States will have many advantages after the war. Our interest payments to foreign nations will be small, because most of our securities formerly held abroad were sold back to us before we entered the conflict. We shall be a creditor nation. Our people have furnished Europe over $3,000,000,000 either in loans or by repurchasing our own foreign-held securities, and in addition our Government has so far loaned its allies nearly $5,000,000,000 and will loan still more.

As these loans stand now, the difference

in our interest position as compared with 1914 would be about $350,000,000 a year. Our average excess of exports over imports for ten years ending 1914 was $478,-000,000. On that basis our average export balance could be cut to about $130,000,000 a year without entailing any drain on our gold supply. But there is no reason to suppose that our exports will be any less—on the contrary we have strong hopes of increasing them—*so our annual income ought to be increased by considerably more than* $300,000,000 *a year.*

On some of our national loans we may be unable to collect the interest but the proportion uncollectible will be relatively small (unless the war proceeds to the point of ruining all Europe), for the external obligations of any nation always come ahead of its internal loans.

Our own national debt, though greatly increased, will not interfere with business activity, since we are making these loans to ourselves and shall pay the interest to ourselves.

Industrial readjustment after the war will, however, tend to check our activity for perhaps two years. It will not be as stern a problem here as in Europe but it must of course have its effect.

Deflation in the United States

We have another important advantage in the automatic elasticity of our currency under the Federal Reserve System. This will serve as a sort of governor to regulate and tone down both inflation and deflation. Our further inflation will consist mostly of Federal Reserve Bank notes based on rediscounted commercial paper or securities. How far we have to carry this form of inflation will depend on the duration of the war. It could be carried to any length by reducing the cash reserve requirements provided for in the Reserve Law—an expedient to which it is most sincerely to be hoped we may not have to resort.

That part of our inflation which has resulted from gold imports and from our previous reduction of reserve requirements for the banks is likely to continue after the war—since Europe will find it a slow and difficult process to get this gold away from us by increasing her exports to us.

The same thing will happen in this country as in Europe—that sudden deflation after the war will not be permitted. If it should be necessary to take special steps to prevent it they will undoubtedly be taken. But it seems probable that the automatic action of the Federal Reserve Law will bring about a gradual and comparatively painless deflation in this country by the retirement of the Federal Bank notes as interest rates fall.

Business After the War

I see no reason, therefore, to believe that American business will suffer any collapse or severe depression after the war. A "peace boom," if it comes, will be sentimental and shortlived. We must expect some dullness of business during the period of readjustment to peace conditions, which, judging from similar readjustments in the past, might be expected to last about two years.

The intensity and duration of business dullness during this readjustment period will depend to some extent on the rapidity of the deflation of our currency and bank credits, since the process will inevitably be accompanied by falling commodity prices. But the greater the fall in our prices at that time the better for our later business prospects. A high plane of prices here would be sure to attract large imports from Europe, which will without question use every effort to build up its export trade. A relatively low plane of prices as compared with Europe would tend to reduce our imports and expand our exports and would thus strengthen our trade position.

The "Major Trade Cycle" which included the Civil War—the shortest in our history—lasted 16 years. If the present cycle lasts as long, our next prolonged depression is not due until 1930. And if the war ends within a reasonable time we shall come out of it very much stronger than we came out of the Civil War—for the reasons explained above under the heading "America's Position."

Investments After the War

I don't see how there can be any question that *peace will bring rising prices for bonds* and for all investments which are assured of interest or dividends regardless of business conditions. Inflation or deflation of the currency will not enter into that question, since there is sure to be cur-

rency enough to prevent unduly high money rates.

Prices of strictly high grade investments after the war will depend, not on money but on capital. There will be money enough, but our supply of capital will be depleted. After the war we shall proceed to accumulate capital again. It will be a gradual process and the rise of bond prices also will be gradual—though the first rebound on the welcome arrival of peace will probably be rather sharp.

The prices of common stocks after the war will, broadly speaking, anticipate business conditions by three to six months, as they do at any other time. The conclusion of peace will doubtless be accompanied by a small bull market, based largely on the general feeling of relief. The subsequent period of readjustment to peace industry will, I believe, mean relatively low prices for the common stocks of most industrial companies.

Railroad stocks will be in a peculiar position, since their earnings have been fixed by the Government until 21 months after the war ends. This should practically cover the period of business readjustment, so that when the roads are returned to their owners general industrial prospects ought to be good.

These securities, therefore, will occupy an intermediate position between bonds and industrial stocks and will doubtless be influenced by the movements of both.

Whatever degree of deflation of the currency may occur after the war will affect common stocks only through its effect on general business conditions, which I have endeavored to outline above.

(*End of the Series.*)

UNFILLED STEEL TONNAGES

The popular conception of unfilled steel tonnages as orders on the books of the United States Steel Corporation actually in hand and to be filled in any event, is an erroneous one. As a matter of fact, unfilled tonnages are hardly more than estimates of steel which manufacturers are likely to require within sixty to ninety days. In times of great industrial activity, when there is a big demand for steel, they may mean a great deal, but in times of slackening demand and declining prices they lose their significance.

One seeing on January 31 last 9,477,853 tons of unfilled orders as reported by the United States Steel Corporation early in February, would be apt to think that with all that business in hand the corporation would have all it could do to catch up with requirements without booking further orders. Yet at the time those figures came out the Steel Corporation was operating at only from 50 to 60 per cent. of capacity. It should be explained while this was largely due to operating difficulties, it was also to the fact that manufacturers, owing to the uncertainty of business prospects, were not specifying against their orders on the Steel Corporation's books.

In the case of unfilled orders, a manufacturer sends to the corporation or one of its subsidiaries, his requirements for the near future as nearly as he can calculate them. This is supposed to be a "firm" order, but as a matter of fact it is not. The unfilled order does not become a real order until the manufacturer specifies against it, i. e., specifies in what shape he wants his steel delivered. If he fails to specify, the order lapses, for while the corporation might insist that he take the steel, it would not be good policy to do so. For the same reason the manufacturer gets the prevailing price at the time he specifies against his unfilled order, and not the price prevailing at the time the order was originally entered.

In times of declines in the steel business unfilled orders shrink very rapidly through failure on the part of manufacturers to specify. From the foregoing it will be perceived that unfilled orders are in reality tentative orders, and therefore, in times of decline like the present, are not a very accurate measure of the status of the steel business.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

Gov. Strong on 3rd Liberty Loan

Benjamin Strong, Governor of the Federal Reserve Bank and chairman of the New York Liberty Loan Committee, enumerates the advantageous features of the impending Liberty Loan as follows:

First, the amount at present asked for by the Government is only $3,000,000,000, a figure far below the general expectation of what might be required. Although it is provided that oversubscriptions may be allotted, the community feels much relieved that the Treasury has been able to reduce so materially its estimated requirements for current disbursements. The amount asked for is less than the amount subscribed even in the first loan, when the Liberty Loan organization was much less developed than at present. It is only two-thirds of the $4,600,000,000 subscribed to the second loan, by which time the organization had been materially improved.

—N. Y. *American.*

THE 5,000 MILE GUN

Second, the higher interest rate of 4¼%, as compared with 3½% on the first loan and 4% on the second, will broaden the appeal of the issue.

Third, all existing issues of Liberty bonds are convertible into the new 4¼% bond, so that holders of these issues may secure the higher interest return afforded by the new bonds. The provision that the impending issue is not convertible into any later issues indicates the Government's expectation that 4¼% is as high an interest rate as it will be obliged to pay on its long-term obligations issued during the war.

Fourth, the new bond, and the old bonds if converted, will be available at par in payment of Federal inheritance taxes. This is a provision likely to secure unusually large subscriptions from wealthy individuals whose estates will be subject to the heavily increased Federal inheritance tax, and whose heirs might otherwise be under the necessity of selling for this purpose securities during a period of low prices.

Fifth, the new issue provides for a 5% sinking fund, which is calculated to operate during the period of the war, so as to afford steady and strong support to the market for the bonds. This is a plan that has been followed with great success in connection with Government financing in Great Britain.

Speaking before theatrical managers and others on importance of success of the new Liberty Loan, Thomas W. Lamont of J. P. Morgan & Co. said in part:

"In the last campaign you showed what you can accomplish. You responded in every way. Many rallies would have failed without your presence. This new campaign will again require all that is within you. Do not get the idea, because the amount is three billions, when you expected it might be more, that the victory is to be easy. Do not let us delude ourselves with any over-confidence of that kind. If we are to accomplish our total in this huge loan, it will mean the greatest effort on the part of every one of you, the most complete harmony of thought and action."

"America Faces Crisis"—J. M. Beck

An urgent appeal to the American people to give up their complacency with respect to winning the war and to the authorities to change their policy of telling the people in exaggerated terms of the greatness of the country's resources and deprecating the strength of the adversaries of the Allies, was made by James M. Beck, former Attorney General, in an address that roused outbursts of enthusiasm from a thousand members of the Economic Club at their dinner at the Hotel Astor.

"If you tell the people that we are bound to win, that it is only a question of time, you won't get results," declared Mr. Beck. "You have got to say to them, 'Men of America,

your backs are to the wall. Now is the time to go on or go under.'

"It is believed as a fact that the Germans in the West have a minimum superiority of 600,000 men, and the appalling fact is that the excess of German man power equals the aggregate of any army in authenticated history.

"Had America redeemed the least of its promises to its brave allies, Hindenburg's mighty advance would probably have broken down. We had promised them at least 20,000 airplanes. A nation that can turn out 100,000 pleasure cars a year from its factories should not have had any real difficulty in rapidly developing the automobile of the air. Unfortunately we have not been able to ship ten, much less 10,000, airplanes to Europe.

"No one can question the good intentions of our country, but the fact is that upon all our foreign policies and war measures experience has written but one verdict, 'Too late!' Who now questions that we should have begun to prepare after the sinking of the Lusitania?"

Curtailment of Construction Work

The following resolution has been adopted by the War Industries Board, Council of National Defense:

Whereas; it has come to the notice of this Board that new industrial corporations are being organized in different sections of the United States, for the erection of industrial plants which cannot be utilized in the prosecution of the war; and

Whereas; plans are being considered by certain states, counties, cities and towns for the construction of public buildings and other improvements which will not contribute toward winning the war; and

Whereas; the carrying forward of these activities will involve the utilization of labor, materials and capital urgently required for war purposes;

Now Therefore; Be It Resolved by the War Industries Board that in the public interest, all new undertakings not essential to and not contributing either directly or indirectly toward winning the war, which involve the utilization of labor, material and capital required in the production, supply or distribution of direct or indirect war needs, will be discouraged, notwithstanding they may be of local importance and of a character which should in normal times meet with every encouragement.

Be It Further Resolved that in fairness to those interested therein, notice is her b~ ~iven that this Board will withhold from such projects priority assistance, without which new construction of the character mentioned will frequently be found impracticable, and that this notice shall be given wide publicity, that all parties interested in such u dertakings may be fully apprised of the difficulties and delays to which they will be subjected and embark upon them at their peril.

"Fair Steel Profits"—E. H. Gary

Judge E. H. Gary, chairman of the United States Steel Corporation, and chairman of the general committee on steel and steel products of the American Iron & Steel Institute, asked to discuss the price-fixing announcement by President Wilson, said:

"The prices approved and announced by the President were those which were recommended by the general committee of the American Iron & Steel Institute after consultation with representatives of the different lines. For some of the manufacturers they are very low, in view of the increased and increasing cost of production. However, all are disposed to devote their capacity to the interests of the Government. A majority of the producers will realize a fair profit on the average.

—N. Y. *Tribune.*
IT WOULDN'T TAKE LONG IF WE'D ALL FORM A BUCKET BRIGADE.

"The prices of steel making pig iron and scrap were reduced $1 per ton because it was believed these products could reasonably afford a reduction, but more particularly because the reductions would be of considerable benefit to the makers of finished products who are compelled to buy their melting material.

"The new price committee is giving careful

and daily consideration to the subject of costs and are well qualified to determine what prices are reasonable and will come within the original proclamation of the President."

"Business Improving"— Pierre Jay

Business activity and sentiment have made further recovery from the disturbed conditions and uncertainty prevailing during the early part of the year, according to the monthly review of general trade conditions in this district issued by Pierre Jay, chairman of the board of the Federal Reserve Bank of New York.

Industries devoting a considerable portion of their capacity to Government orders are very active, he says, although they are hampered by difficulty in obtaining and holding skilled labor and obtaining the necessary transportation accommodation and supplies. It is asserted that the necessity of anticipating needs for raw materials, in order to avoid delays due to transportation difficulties and other causes, has led to the acquisition of heavy stocks and the reporting of large inventories, but efforts are being made to pursue a conservative course in buying and to keep inventories within reasonable bounds.

—Financial America

SAMSON.

Federal Ruling Hits "Short" Sales

The Attorney General has filed a decision, interpreting that part of the stamp tax in the last war revenue act which requires a stamp of two cents on sales of capital stock per share, or where the value of a share is more than $100 on each $100 or fraction of that amount.

The effect of the decision is that it will require four stamps on each share in every so-called short sale of stock. The scope of the decision widens and enlarges the Government's taxing power and will no doubt add immensely to revenues. In pursuance of the interpretation put upon the law by the Attorney General, Internal Revenue Commissioner Daniel C. Roper issued the following ruling to Internal Revenue collectors:

In accordance with an opinion from the Attorney General dated March 23, 1918, it is held that the transfer of shares or certificates of stock in any association, company, or corporation made by the person loaning stock to another, borrowing the stock to effect a sale, and also the transfer of shares or certificates of stock from a borrower returning them to a lender in fulfillment of the borrower's obligation to buy in and return stock, are both subject to the tax imposed by Sections 800 and 807, Schedule A, subdivision 4, Title VIII., of the War Revenue Act of October 3, 1917. In a so-called short sale transaction there are therefore four taxable sales or transfers:

(1) The sale of stock by the person making the short sale.

(2) The transfer from the lender of stock to the person making the short sale so that he may make delivery of the stock sold.

(3) The purchase by the borrower of stock to return to the lender.

(4) The transfer from the borrower to the lender of shares to replace those borrowed.

"Triple Industrial Partnership"—T. P. Shonts

Theodore P. Shonts, president of the Interborough Rapid Transit Co., of New York, gave an address recently before the Economic Club of Boston on "Social Reconstruction After the War," apropos of the British Labor Party's program, recently issued. In lieu of the Labor Party's suggestions, Mr. Shonts favored, as more practicable for the present, a program of partnership in great industries between the government and industry, and between industry and labor. Mr. Shonts said, in part:

"Uncontrolled competition produces economic waste. Privately controlled industry avoids waste, but creates a tendency toward monopoly with swollen fortunes. On the other hand, governmental ownership and operation, in the light of experience, spells inefficiency. I believe, however, that the efficiency of private operation and the benefits of governmental control can be secured through a partnership between the Government and private

industry, thus leaving room for individual initiative with corresponding reward.

"Such a plan is now in successful operation in the City of New York in the case of the contracts between the city and the rapid transit railroad companies, for the construction and operation of the 'Dual system' of subway and elevated railroads.

"The government of the United States might easily work out a partnership plan for the operation of the railroads after the war along the foregoing lines. In this way the railroads will have all the benefits of private management and the government, through its general control, can bring about a more scientific distribution of traffic.

"What can be done with respect to the railroads can be accomplished in the case of all main industries, thereby saving them from the evil effects of a purely socialistic control and the country from the conduct of business by political methods.

"We need the incentive which the hope of profit gives to leadership and invention. The progress of society depends upon (1) a high joint productivity and (2) a wide distribution of the results of that productivity. Productivity is increased by better organization, by new inventions. The end of invention and technical progress has not yet come."

War Taxes on Installment Plan?

Bankers and business men generally are in favor of the Congressional proposals that the Federal Income and Excess Profits Tax law be amended so as to permit of the payment of taxes on the installment plan, instead of in bulk on June 15, says the New York *Times*.

Officers of the leading banks who were interviewed said that the distribution of the payments over a long period would help the money market and make it much easier for corporations, partnerships and individuals to meet their payments. It was pointed out, however, that the advisability of enacting the proposed bills rested with the Treasury Department, which had to decide whether the requirements of the Government would permit of the postponment of part of the tax payments.

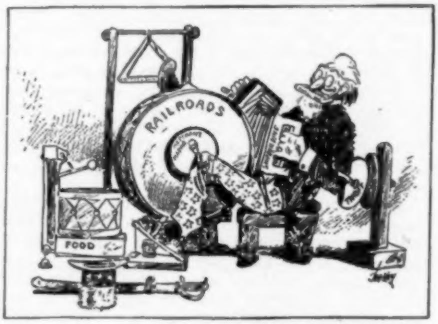
The question of installment payments may be considered from three angles: first, that of the taxpayer; second, that of the banks; and third that of the Government.

As for the taxpayer, a great many of the large corporations and wealthy citizens have made provision for meeting the tax payments by the purchase of Treasury certificates of indebtedness, which are acceptable in li u of cash by collectors of internal revenue; but on the other hand, a great many taxpayers have been unable to set aside the necessary funds and are depending unon their banks to help them out.

Inquiry among the banks elicited the information that they were expecting to be called on to finance the tax payments of many of their customers. It was pointed out that if the loans made to the taxpayers were spread over a longer period, it would have a beneficial effect on the money market, but the view was expressed that the total borrowings would in all probability not be less if the installment plan were adopted.

Advantages of War Finance Corp.

The War Finance Corporation will start with an authorized capital of $500,000,000, says Thomas W. Lamont in the April *Forum*. It will have power to issue its own obligations to the extent of $2,000,000,000. And it is not at all improbable that these obligations, bearing a higher rate of interest than our direct Government obligations, may find a considerable market among investors "between seasons," that is to say, at times other than the Liberty Loan campaigns.



—Cleveland *Plain Dealer*.

AND, BY GINGER, HE CAN PLAY 'EM ALL! (BUT IT KEEPS UNCLE SAM BUSY THESE DAYS)

Such obligations should be hardly less secure than a Government bond itself, having behind them in most instances the sound promises-to-pay of high grade financial institutions, backed up by the obligations of the particular corporation which may have secured an unusual line of accommodation from its bank.

Thus in ordinary instances the War Finance Corporation deals not with the corporations seeking new capital, but with the banks which have made advances to such corporations. These banks will be the readier to deal freely with such enterprises, knowing that the War Finance Corporation stands ready in turn to make advances on the security, properly margined, of the banks' notes, backed up by the

obligations of the customer. The Finance Corporation may make its advances to the bank by handing to it its own obligations, or bonds; and the bank can utilize these, as collateral to its own notes, in obtaining credit on the books of the Federal Reserve Banks.

Expert Financial Opinion

The National City Bank of New York—The war problem is first an industrial problem. The financial ability required is dependent upon and corresponds to the industrial capacity. If we will develop and properly conserve the latter, there will be no trouble about the former. This demonstration lights up the whole problem of financing the war. It establishes confidence. There is no need for alarm on the subject of raising money; no occasion for doubtful experiments. All that is required is that the country shall not expect or attempt to use the same labor and capital twice at the same time for different purposes. What it wishes to give to the Government's service it must not try to use privately. The theory that we must resort deliberately and designedly to inflation has not a leg to stand on. The only sense in which inflation can be said to be unavoidable is in the sense that so many people are ignorant of the principles of sound finance and mistaken as to the policies which individuals should pursue in order to assist the Government, that a considerable lack of effective co-operation is to be expected.

Goodbody & Co.—Assuming that the German drive will soon be halted and that the Germans will be quickly or slowly driven back, we think that the equipment and dividend-paying railroad stocks will be the best to hold. Director General McAdoo is expected soon to place orders for $100,000,000 of equipment and materials, including 2,700 locomotives and 45,000 freight cars. The railroads passed under full Federal control on March 21, under very favorable conditions to stock holders. That the Government will not be parsimonious in its treatment of the unfortunates is shown in the case of the New Haven. We expect generous consideration also in the cases of the St. Paul and Missouri Pacific roads. The 7% dividend on St. Paul preferred will probably be continued as soon as the facts can be considered. Apparently more than 10% a year was earned on this stock for the three years ending June 30, 1917. Other stocks that look attractive are those of Industrial Alcohol, Virginia-Carolina Chemical, Republic Iron & Steel, Mexican Petroleum, Brooklyn Rapid Transit and Smelters.

Guaranty Trust Co. of New York—Everywhere throughout the world, men and nations are preparing for peace. Their preparations are going forward not in the belief that peace will come in a month, or a year, or within any other fixed period, but rather in the conviction that no matter how far off peace may be, its known problems are of such magnitude and importance as to require immediate consideration. In the United States there has been, so far, no organized undertaking on the part of the Government looking to the solution of these problems. The future political and military relations of this country to the rest of the world have been set forth by the President, but neither he nor the Congress has approached the question of financial, industrial and social reconstruction as a whole. Up to the present time the task has devolved largely upon individuals, corporations and associations who have no official standing. A great deal has been done in a desultory, detached sort of way, but no medium for interchange of opinion except the press, or for co-operative effort, has been created. This country seems not yet to have sensed the fact that the day of individual efforts and purposes, as distinguished from co-operation and public service, has passed; that this war has established not only the interdependence of nations but also the interdependence of individuals and classes within the nation and that common understanding, counsel and co-operation are surely to be the watchwords of the future.

Hayden, Stone & Co.—After such an exhibition as the market has given the past week, one cannot but have a great deal of confidence in the maintenance of the present level. With the exception of, perhaps, one or two weak spots, apparently only the prospect of a defeat of the Allied cause could produce any real volume of liquidation. If stocks will not go down in the face of such a threat as we have had, it seems a natural conclusion that, in the long run, they must go up. There may well intervene, however, quite a considerable time yet with no decided tendency. The tightness in the money market alone would militate against any extended advance. Meantime, values continue to accumulate. When the country can make the arts of peace, and not of war, its principal business, this is the factor that should count.

The National City Bank of Chicago—The railroads are reporting large increases in gross earnings but these gains in many cases will be largely if not wholly offset by the rise in operating costs. But the position of the transportation industry is unique in that its income is assured so that the security holding classes do not have to worry as formerly about getting their income. It is clear that the benefits of this assurance have not been fully reflected in the market quotations for securities of this type. This will come in time, however, as the protection is there and must be recognized when conditions become normal again. The investment markets have given a good account of themselves, considering the uncertainties which have to be reckoned with. All security prices are in process of adjustment, however, to conditions imposed by the government borrowings and the worldwide demand for financial accommodation. The British markets witnessed a similar readjustment earlier in the war period, and it is fortunate for us that the drastic liquidation last Summer and Fall strengthened the technical position of our markets in a remarkable way.

BONDS AND INVESTMENTS

Shifting Your Bond Holdings

How the Investor May Increase His Income or Safety

By WILLIAM T. CONNORS

A BOND which gives the investor a yield of say 7%, or under present conditions even 8%, involves more risk than one which yields 5%, but—and this point is not generally understood—*the risk does not increase, on the average, in proportion to the rise in the yield.*

To make this clear, compare an investment in 5% bonds with one in 7% bonds. For convenience we will assume that all the bonds are bought at par. The principle would be the same if they were bought above or below par to yield 5% or 7%.

If $25,000 is invested in 5% bonds the annual interest return will be $1,250. If it is invested in the 7% bonds of 25 different companies the annual return will be $1,750, or $500 a year more. On the second investment, therefore, the buyer could stand the complete loss of one $1,000 bond every two years on the average, and he would still be as well off as though he had invested in the 5% bonds.

But as a matter of fact, the holder of 25 well selected 7% bonds will not suffer the complete loss of one of them every two years. Even if one of these companies goes into receivership occasionally, the investor will not usually lose the full principal of his bond. He is pretty sure to get something out of the reorganization, even though he may have to stand some loss. He could stand some pretty frequent receiverships among his selected companies and still get an average return of 6%.

Importance of Distribution

This illustrates the well known principle that the investor in high yield securities must distribute his holdings among different companies and various lines of business. That is the real advantage of distribution—spreading out over companies which are working under entirely different conditions, so that if one company or one line of business encounters hard times other companies in other channels may be still prosperous. Since the war, for example, the investor whose holdings were distributed among both railroad and industrial bonds has been in a much better position than one whose investments were confined to the rails.

The term distribution is often used to mean spreading an investment over securities of different grades—for example, bonds yielding 5%, 6%, 7% and 8%—on the theory that the holder will not then be so likely to lose everything. A part of his money is safe and he is taking a risk on the rest. There is no harm in that kind of distribution, but it is not nearly so important or so scientific as distributing over different lines of business.

It should be understood, therefore, that none of the bonds discussed in this article should be selected for the whole of an investment. Even the investor who has only $500 can easily find five different $100 bonds over which to distribute his holdings, so no one has any good excuse for neglecting this fundamental principle.

With this explanation, I will suggest some exchanges among second grade rails and among industrials and leading public utilities which seem to me desirable.

In the first place, I see no reason why any private investor should hold second grade bonds legal for savings banks in New York; or for that matter, any legal bond which now yields 6% or more. The very fact that a bond, although legal for the banks, sells at such a low price shows that the company issuing it is in a relatively weak position.

Take for example the B. & O. refunding 5s and convertible 4½s, or the St. Paul refunding 4½s, and convertible 4½s and 5s. These are New York savings bank bonds, but they have recently been selling to yield

from 6¼% to 7½%. The high yields are these companies.

LIST I

	Price	Yield %
Erie cons. 4s 1996	66	6.15
Pere Marquette 5s 1956	80	6.40
St. Louis So. West. 1st 4s 1989.	66	6.15
May be exchanged into		
South. Pacific conv. 4s 1929	76	7.10
Ches. & Ohio conv. 5s 1946	80	6.60
N. Y. Cent. conv. 6s 1925	93	6.70

The reason for the changes suggested in List I is a higher yield combined with a better prospect for growth of the roads and a better position under the Government guaranty of earnings. The first three show lower yields because they are mortgage bonds and many investors select them for that reason, but I would prefer to bank on the general prospects of the three companies in the second group. Details as to the last three bonds are as follows:

Southern Pacific Convertible 4s, 1929. On a ten years' average this company has earned all interest charges more than twice over. There are about $81,000,000 of these convertibles outstanding. They are a direct obligation of the company, but not a mortgage bond. Convertible into common stock at 130 up to June 1, 1919. This privilege is not usually estimated to have any value. Callable at 105 and interest on 90 days' notice, in which case conversion privilege terminates 30 days before redemption. This company's present business and prospects are good and the bond is an excellent debenture issue.

Chesapeake & Ohio Convertible 5s, 1946. All fixed charges of this company are usually earned more than 1½ times, and it is regarded as a growing road. Has made heavy applications of earnings to improvements for several years. About $40,000,000 of these bonds outstanding, $500 and $1,000 denominations. Convertible into stock to April 1, 1920, at 75; to 1923 at 80; to 1926 at 90; to 1936 at par. There is a considerable possibility of value in this privilege. Callable as a whole at 105 until 1929, thereafter at par. Secured by deposit of $45,920,000 of C. & O. first lien and improvement bonds due 1930, which have liens (mostly third and fourth) on 1,730 miles and are also backed by collateral having $47,000,000 *par* value.

New York Central Convertible Debenture 6s, 1935. For ten years road has earned all fixed charges about 1.6 times. These bonds are outstanding to the amount of $100,000,000, no mortgage, legal for savings banks in N. H. Denominations $100, $500 and $1,000. Redeemable May 1, 1918, or thereafter, at 110 and interest. Convertible into stock at $105 bonds to $100 stock to May 1, 1925, a privilege which may have value. A good debenture.

LIST II

	Price	Yield %
Denver & R. G. cons. 4s 1936.	64	7.70
Erie gen. 4s 1996	51½	7.90
Sou. Ry. deb. 4s 1956	60½	7.00
Chicago Gt. West. 1st 4s 1959.	54½	7.60
May be exchanged into		
C. & O. conv. 4½s 1930	72	8.00
Colo. & Sou. ref. 4½s 1935	68	8.00
Kans. City Sou. ref. 5s 1950	75	7.00

Reasons for the exchanges in List II are varied—a better yield with equal prospects, the same yield with better prospects, or a more consistent record of growing earnings, or a better position under the Government guaranty of earnings. However, the Southern Ry. bond affords a good yield, and the road has excellent prospects, so there could be no objection to holding that issue if desired.

Chesapeake & Ohio Convertible 4½s, 1930. See description of convertible 5s above. The convertible privilege on the 4½s into stock at par ends Feb. 1, 1920, and therefore has no probable value. That is one reason why the 4½s sell relatively lower than the 5s, but the 5s are also more strongly secured, since the first lien and improvement bonds under them are secured by collateral as well as by liens. This is not the case with the 4½s. While this is a slightly speculative bond, the good earnings of the road and its prospects for growth, combined with the very high yield obtainable, make it attractive.

Colorado & Southern Refunding 4½s, 1935. For ten years this road has earned all interest charges about 1.7 times, and since 1914 earnings have been rapidly on the up-grade. About $31,000,000 4½s are in the hands of the public, denominations $100 and $1,000, callable at 101 and in-

terest. A first collateral lien on 1,250 miles, second direct lien on 1,080 miles, also second collateral lien on miscellaneous securities. The reason for the high yield on this bond is that in 1914 and 1915 this road earned its fixed charges only 1.16 times. Bond buyers remember this rather slender surplus, but in view of good average results and the rapid improvement in earnings since 1915 the bond does not appear to involve any special risk.

Kansas City Southern Refunding 5s, 1950. The road has generally earned about double all interest charges. Eighteen million dollars outstanding, callable at 105, second lien on 823 miles, mostly main line, and first lien on small amounts of collateral. A very good bond.

LIST III

	Price	Yield %
Indiana Steel 1st 5s 1952.....	**95**	**5.30**
Repub. Iron & Steel 5s 1940.	**96**	**5.30**
Gen. Electric deb. 5s 1952....	**100**	**5.00**
May be exchanged into		
Va. Caro. Chem. 1st 5s 1923..	**94**	**6.50**
U. S. Rubber ref. 5s 1947....	**77½**	**6.75**
Midvale Steel conv. 5s 1936...	**84**	**6.50**

The reason for changes in List III is the higher yields obtainable from the second group, combined with a satisfactory degree of safety. No fault whatever is to be found with the first group except relatively low yield.

Virginia-Carolina Chemical First 5s, 1923. The company hardly ever earns less than double all its fixed charges, and in 1916 and 1917 they were earned more than four times over. There is a sinking fund of $300,000 per year behind this bond, of which $12,600,000 is outstanding, callable for sinking fund at 102½ and interest, secured by first mortgage on real estate, plants and collateral. A high grade industrial bond.

U. S. Rubber Refunding 5s, 1947. This company usually earns all its interest charges two or three times over. The bond is available in $100, $500 and $1,000 denominations, is callable at 105 on 90 days' notice after Jan. 1, 1920, and an annual sinking fund of 1% of outstanding bonds begins Jan. 1, 1919, to purchase bonds at not exceeding 105. The $60,000,000 outstanding are secured on the company's entire property subject to $11,500,000 prior liens. An additional $10,000,000 may be issued subject to the provisions of the mortgage, which are rather complicated, but furnish holders considerable protection. A good bond, not of the highest grade.

Midvale Steel & Ordnance Convertible 5s, 1936. There are less than $45,000,000 of these outstanding, and they are not only a direct obligation of the parent company, but are also secured by the deposit of Cambria Steel stock. The latter has earned more than the par value of the bonds in the last two years. Convertible into Midvale stock at $100 a share (par $50), and callable at 105 and interest for sinking fund, which provides that somewhat over $500,000 a year is to be applied to purchase or redemption of bonds at not over 105 and interest. It is possible that the convertible feature might be of value some day and still more possible that the bonds might all be called at 105, which can be done on 60 days' notice after March 1, 1920. An excellent industrial bond.

LIST IV

	Price	Yield %
Amer. Tel. & Tel. Coll. 5s 1946	**91**	**5.65**
N. Y. Telephone 4½s, 1939..	**87**	**5.50**
May be exchanged into		
Amer. Tel. & Tel. coll. 4s 1929	**81½**	**6.25**
Interboro-Met. coll. 4½s 1956.	**52½**	**8.75**
May be exchanged into		
Hudson & Man. 1st 5s 1957..	**56**	**9.10**

The telephone bonds call for little comment. All three in List IV are good, but the last mentioned gives the best yield with satisfactory security.

I prefer the Hudson & Manhattan bonds to the Interboro issue, because the new subways seem certain to help the Hudson tube system regardless of their own prospects. These are a first lien on the tubes and terminal and for the last four years their interest has been earned about 1⅓ times annually, with a steady and growing business. A speculative bond with good prospects.

Readers' Round Table

[Subscribers are invited to contribute to the Readers' Round Table Department. From our readers we receive many valuable suggestions and interesting ideas, and have inaugurated this feature in order that they may present their problems and their thoughts to their fellow readers. We believe that this interchange of ideas will prove to the advantage of all. Send in your manuscript addressed to Editor, Readers' Round Table. No names will be used unless permission is given.—*Editor.*]

Editor, MAGAZINE OF WALL STREET:

Is a stockbroker allowed to charge me 7% on balance, where the amount owing by me on shares carried, on margin or partial payment, is less than $5,000?

Suppose I have 20 Steel, bought at 95 and 30 International Nickel at 30, making a total cost of $2,800, including commission, and on this transaction I deposit $300 as margin, or first payment. Of course, I sign the usual paper, allowing the broker to pledge my stock with his other securities at his bank, and supposedly the broker takes my stock along with his own securities to the bank and borrows about 80% of its value.

Therefore, so far as my account is concerned, the broker has borrowed $2,240. As I paid him $300, this sum with the bank loan only amounts to $2,540, which leaves about $260 which the broker must advance personally out of his own funds.

Does it not seem to you that I have nothing whatever to do with how much the bank charges the broker? It seems to me that the broker, having his own arrangements with the bank, and never consulting me in the matter, and acting without my special knowledge or consent, would be acting entirely on his own behalf. In a word, it looks as if in borrowing from the bank he is financing himself as well as his customers and that in doing so he is not acting as my agent, but as a principal in the matter. Obviously the broker cannot sit on the fence, as it were, and take advantage of high call rates to make me pay high and yet pocket the difference when call loans fall to 4% or even 3%, as they sometimes do. If he claims to be an agent, I ought to get the benefit. If a principal, what about the usury law?

"PERPLEXED."

Section 379, General Business Law, states: "In any case hereafter in which advances of money, repayable on demand, to an amount not less than $5,000, are made upon certificates of stock, bonds or other negotiable instruments pledged as collateral security for such repayment, it shall be lawful to receive or to contract to receive and collect, as compensation for making such advances, any sum to be agreed upon in writing, by the parties to such transaction."

In your case the stock belongs to you as general owner, although remaining in the possession of the broker by reason of his general lien for the amount of his advances on your account. The broker is only the pledgee of the customer's securities. This was the decision of the highest court in the State in the case of Content v. Banner.

Whether the broker borrowed the money as your agent or on his own behalf is clear from the fact that the broker makes the loan from the bank in his own name. He does not give the joint note of the customer, or the name of the latter to the bank. He has in his own possession a paper authorizing him to use *each customer's stocks,* but not their name or credit.

The broker has not acted as the agent of the customer in borrowing from the bank.

Section 379 of the General Business Law does not excuse the broker, and does not take the transaction out of the prohibition of the usury law. Our lawyers advise that a careful search of the case books shows only two cases where the subject has been discussed. They are: Wright v. Toomey, 137 App. Div., 401; Hawley v. Kountze, 6 App. Div., 217. In each of these cases the amount advanced to the customer was in excess of $5,000. In each case there was a note signed by the customer. Neither case is precisely in point, for the reason that they are entire transactions, rather than marginal accounts with stockbrokers. We must, therefore, be guided largely by general custom, established practice or legal agreement.

It is admitted that a great many of the curb houses constantly charge their customers more than the legal rate of interest, and it may be said that they get away with it.

We interviewed a member of one of the largest Stock Echange houses recently and asked him what the custom was with firms with which he had been connected. He informed us that they had obtained reliable legal advice a long time ago. They have since followed the *opinion* of their lawyers and never charged a customer more than 6% interest unless his account showed a debit of more than $5,000. Accounts showing a debit of less than $5,000 were charged 6% even where they, themselves, had been compelled to pay more on their demand loans.

The average rate paid by brokers during the month for call loans in some months may not exceed 4%. The broker may have an agreement with his customer to charge him 5% or 6%. He would not be put to great hardship in this matter because in the course of a year the average call money rate is much less than 6%. It recently dropped to as low as 3%. The broker has ample margin to make a reasonable profit in the way of interest.—EDITOR.

"Under the Microscope"

A Critical Analysis of New Security Offerings

By "MAGWALL"

[The purpose of this department is to analyze, weigh and classify offerings of new securities, without fear or favor, and also without malice or prejudice.

The purchaser of securities of a new enterprise is taking chances. There is nothing wrong about that if the nature of the proposition is truthfully explained to him, if the securities are offered on a reasonable basis, and if the management makes an honest effort for success.

Magwall will tell the facts as he sees them. He claims sincerity, but not omniscience. If he makes mistakes he will be glad to have them pointed out and if convinced of error will gladly make correction.—EDITOR.]

RECENT offerings of securities of good grade have been put out on such an attractive basis that in other days the yield alone would condemn them as speculative. The necessities of the corporations have brought forth unusual yields combined with most acceptable security. Some of the more prominent issues offered recently are briefly described below.

TWIN STATES GAS & ELECTRIC 6% SECURED NOTES due January 28, 1919. This issue of $300,000 was offered to yield 7.63%. The company is a small holding corporation, operating in New Hampshire, Vermont and Northern New York and its principal business is in electricity produced in hydro-electric plants. The company has shown consistent earnings, and these notes are secured by 120% of general mortgage 5s.

While the company is comparatively small, serving somewhere between 90,000 and 100,000 people, the notes look very good to hold through to maturity. They are in the business man's class. Being such a small issue the market could not be expected to be active. One of the best things about the company is that the management is under the direction of the Middle West Utilities Company, and Samuel Insull is president.

THOMAS CUSACK FIRST 6% SERIAL BONDS, dated February 1, 1918, with maturities annually to and including 1927. This $1,800,000 issue is secured by direct mortgage on all the property of the Cusack company. The value of the security, including additional property to be acquired with part of the proceeds of this issue is $6,050,000. The company contracts they will maintain quick assets of at least $900,000 over all its liabilities, excluding the company's bond issue.

The bonds are redeemable at 102½, in reverse of numerical order on February 1, 1920, or any interest date thereafter. The company contracts to set aside a considerable sum before dividends can be declared. The company owns and operates 250 bill-posting and 50 painted bulletin plants. The earnings for 1917 were $450,000 as compared with interest requirement for the bonds of $108,000. The information given out in connection with the present offering does not give yearly earnings, but states that they have averaged for the last five years nearly three times the annual interest charge. As a matter of fact the earnings were given out for 1912 to 1916, inclusive, in connection with a previous and now retired issue. They showed a good and consistently increasing earning power for the corporation which is the largest outdoor advertising organization in the world. The new bonds have been offered to yield 6%.

This issue would look very attractive as a business man's investment, if it was put out at a higher yield. These days one can get railway equipment bonds of unquestionable security to yield more than this.

AMERICAN GAS & ELECTRIC COMPANY 3-YEAR 6% SECURED CONVERTIBLE GOLD NOTES, due March 1, 1921. These notes, amounting to $1,430,000, are secured by deposit of $2,078,500 first mortgage 30-year 5% bonds of the Indiana General Service Company, which owns and operates the company's electric light and power properties in Indiana, supplying 21,237 customers. The properties are appraised at nearly $7,500,000 and are bonded at only $3,227,500, including the bonds pledged to secure the 3-year notes.

The notes are convertible at par into the pledged bonds at 86½ to March 1, 1919, at 88 after that to March 1, 1920, and at 89¾ from then to maturity. The income of the properties mortgaged under the pledge of the notes has averaged $375,000 for the last four years against a present total interest charge of $180,000. The American Gas & Electric Company itself, which has directly issued the notes, is one of the most prosperous of the public utilities. The common stock is now selling at around 170% of par and has sold as high as 320%. It pays 10% in cash and 4% in stock annually and the management of the company is under interests closely identified with the General Electric Company.

The notes were offered on a 7¾% basis, which is remarkable, considering their high security and attractive convertible feature. The company reserves the right to call the notes as a whole or in amounts of less than $500,000 by lot at 100½ on six weeks' notice. At that, purchasers at anything like the offering price of 95½ have little to fear of having their security taken away from them.

PHILADELPHIA ELECTRIC COMPANY 2-YEAR 6% SECURED NOTES, due February 1, 1920. The Philadelphia Electric Company and its subsidiary, the Delaware County Electric Company, does the entire central station electric light and power business in Philadelphia, and down the Delaware River to the state line, serving the manufacturing and shipbuilding plants in this district. The $7,500,000 notes are secured by $2,500,000 of Philadelphia Electric Company first 5s and by $10,000,000 Delaware County Electric 6s.

The stock of the Philadelphia Electric Company is a highly regarded security and the market appraises the value of the property following the notes as measured by the stock, at about $25,000,000. The total amount of funded debt requirements is earned more than twice over. The notes are offered to yield 7¼%. They were almost immediately snapped up and now sell to yield 6.60%.

The present basis makes them no great bargain, but the notes are of very high grade, well worth considering in any list.

CINCINNATI GAS & ELECTRIC COMPANY 2-YEAR 6% SECURED NOTES, due March 15, 1920. The Cincinnati company had paid dividends of not less than 4% for 65 years, the present rate being 5%. The $2,225,000 notes are secured by refunding 5s, which are bonds of good grade and have been improving in security because several underlying issues have been paid off in recent years. It is not possible to analyze earnings as the properties are under lease to a direct subsidiary of the Columbia Gas & Electric.

This lease is guaranteed by a fund of $3,000,000 in cash and approved securities. The rental receipts amount to three times all interest charges. The notes are offered to yield 7.25%. They look like a purchase.

GORHAM MANUFACTURING COMPANY FIRST MORTGAGE 7% SERIAL GOLD BONDS. This $3,000,000 issue matures serially semi-annually February 1, 1919, to February, 1924. The bonds are secured first mortgage on all the property and equipment of the company, which is the largest manufacturer of sterling silverware and recently an important manufacturer of munitions. Net tangible assets as of December 31, 1917, were about $10,500,000 and net quick assets alone were about $6,500,000. The company contracts to maintain during the life of the bonds net quick assets to 150% of the bonds outstanding.

Unfortunately we are given only "average annual net earnings" for the last five years, which have been over three times the annual interest for these bonds. We know that the company has paid 6% on its preferred stock since 1894 when it was issued and the common stock has not failed to receive dividends since 1881.

The bond issue was put out in order to finance government munition contracts. All of the maturities were offered at par. The bonds can be recommended highly and especially the earlier maturities are a purchase at any time they are available at the current value of money.

RAILWAYS AND INDUSTRIALS

BUSINESS AND FINANCE SERIES

No. XI. PART 1

The Story of the Chain Stores

Frank Woolworth's Idea—A Cash Business and Quick Turn-overs—The Tea Chains—Future for the Business

By J. G. DONLEY, Jr.

FORTY years ago Frank W. Woolworth was a clerk in Moore's General Store at Watertown, N. Y. He was an uncommon clerk; he had ideas. He noticed that numerous small articles of merchandise that retailed for as little as five and ten cents had a habit of getting into nooks and crannies and gathering dust, only to become shopworn and unsalable.

Using his grey matter when he might have been lolling in lizard-like contentment in the warm sunshine of the front doorway, young Woolworth worked out a plan of action. He reasoned that if all the low-priced goods were assembled in an orderly and attractive manner on a special counter their endless variety would offer an irresistible appeal to the eyes of Watertown's good people, which would result in creating a desire for possession, and an outpouring of nickels and dimes. The half-cent profit in the nickel and the penny profit in the dimes would in the long run be worth the trouble, he figured.

Mr. Moore readily assented to a trial of the five- and ten-cent counter, and it was such a success that Woolworth's teeming brain immediately visioned a five- and ten-cent store of his own, with a horse and buggy and other luxuries of the time. He prevailed upon his pleased employer to advance him some $300 worth of merchandise, and went to Utica, where he started the first five- and ten-cent store. It was perhaps lucky for him that success—and overconfidence—did not come easily.

The original nickel and dime store was a dismal failure.

But Woolworth saw his errors, gritted his teeth, and moved to Lancaster, Pa., where he tried again and succeeded.

The idea of cash sales and no credit risks, a quick turn-over and a multiplication of small profits into a handsome aggregate made good to such an extent that before long it was possible to establish another store out of surplus profits. What worked with one store was equally applicable to others, and with increasing sales there came the added advantage of greater purchasing power.

From that germ of applied truth the Woolworth chain has grown to 1,000 stores in the United States, 70 in England, and an equal number in Canada, doing an annual business of close to $100,000,000, and employing 35,000 people.

Woolworth's lead was followed by J. G. McCrory, who opened his first store at Scottdale, Pa., in 1882. The idea once having demonstrated its worth, was readily adapted to other lines of business, and such pioneers as George J. Whelan developed the tobacco and cigar store chain, with Louis K. Liggett perfecting the drug store chain, James Butler the grocery, and S. S. Childs the restaurant. Other prominent names in the history of the chain store development are S. S. Kresge, S. H. Kress and Harry L. Jones of tea and grocery store fame.

Before expounding the theory of the chain store's development in fuller detail, it will be interesting to deal with the beginnings and the romance of the Whelan brothers' rise to fame and fortune. Little more than a score of years ago George J. Whelan and his brothers were operating

three or four cigar stores and hotel stands in Syracuse, N. Y. George J. Whelan was gifted with no less imagination than Woolworth. He thought things over.

Whelan's big idea was that not only the wooden image of an Indian in front of the cigar store, but also the "wooden Indian" behind the counter must go.

He gave away a smile and a polite and ingratiating "thank you" with every sale. Sales grew. The Whelan brothers borrowed $1,500 and brought their total number of stores up to eight. Then valuable premium coupons were added to the smile and the cheerful expression of thanks. The coupons made the smoking man's habit almost a boon to his better-half. Thereafter smokers knew contentment, and the Whelan brothers' profits were prodigiously multiplied.

Now the United Cigar Stores chain numbers more than a thousand, and its yearly gross sales are approaching the $50,000,000 mark.

Causes of Success

To get down to the reasons why: After all, the chain store idea in its fullest development is nothing more than a reversion to the simplest and most efficient form of merchandizing; that which consists of cash sales over-the-counter, on-the-spot, and possesses all the personal contact advantages of the neighborly local store. Along with these vibrant verities are the rock-bottom potentialities of buying in enormous quantities and the economizing possibilities of a well-oiled organization.

The root idea reaches its fullest development in one link of the chain, and its extended application is only a matter of duplication. New links are fashioned from the surplus profits of existing members of the chain, with resultant cumulative accessions to surplus and ever enlarging powers of growth.

The general principles may be enumerated in succinct summary as follows:

(1) Primarily the chain store business is fundamental because it sells to all classes of people the small things which enter into everyday life.

(2) It sells a great number of these things with a small margin of profit.

(3) Because of this volume, standard goods can be sold at a reduction of about 25 per cent.

(4) The business is co-operative, the store managers and buyers having the personal interest incentive of a share in the profits.

(5) As the experience of the organization increases, widening application of the principles of efficiency and economy are possible.

(6) Its growth is from the inside outward. It is built up on profits, not on heavy borrowings.

The result is satisfaction to the patron, prosperity for the officers and managers, and profits for the stockholders.

Chain stores are not entirely fool-proof, sure-fire successes, but they have been perhaps 99 per cent. efficient. S. H. Kress significantly said not so long ago, "A Kress store once established has never been discontinued." The United Cigar Stores Co. chooses its new locations with mathematical precision, making an actual count of the number of passersby who daily come within purchasing range of the prospective store. Then the Realty Company negotiates a long-term lease and generally manages to so remodel the property as to sub-let advantageously and give the cigar store practically rent-free occupancy. Moreover, every new store pays the cost of installation before its earnings are included in the total income of the system.

Rapid Growth

The following record of aggregate sales of the three largest five- and ten-cent chains —the F. W. Woolworth Co., S. S. Kresge Co., and S. H. Kress & Co.—for the last five years, speaks an unmistakable language of prosperity:

1913	$90,262,896	1916	$128,546,498
1914	97,615,052	1917	145,826,658
1915	109,368,665		

At the close of 1917 these three systems, each of which had its beginning in a single store, were operating 1,308 stores in the United States and 140 in foreign lands, furnishing employment to fully 40,000 persons in the retailing part of the business alone.

Bringing the record of sales down to date, it is found that expansion is still in progress. In January of this year the total turn-over of the three systems men-

tioned above was $8,961,026, while in February gross sales amounted to $9,594,-347, as compared with $8,368,978 and $8,410,633, respectively, for January and February, 1917. The gain in February is the more noteworthy when it is recalled that this was a month perforated by holidays and fuelless Mondays east of the Mississippi.

The Tea Chains

It would not be proper to leave the history of these living chains without some mention of the development of the agency and wagon-route tea concerns, such as the Jewel Tea Co., the Jones Bros. Tea Co. and the Great Atlantic & Pacific Tea Co.

What is now the Jewel Tea Co. began with one wagon and $700 capital in January, 1899. In nineteen years it has grown up to a business of nearly $16,000,000 annually, with four hundred branches, and some 10,000 different wagon routes over which it sells tea, coffee, baking powder, soap and certain like articles direct to the consumer.

A recent development in these organizations has been the partial elimination of the agency in its old-established capacity; that is, simply as a supply head for the radiating routes of the wagon salesmen. Displacing the out-of-date agency, there has come the "economy" store. The "economy" stores are simply applying the ideas which have made the five- and ten-cent stores possible and profitable. Their unit of sales is larger, of course, but they are selling standard package goods over the counter for cash, eliminating deliveries, telephones, and every form of service except the emphasized one of "low-price and quality."

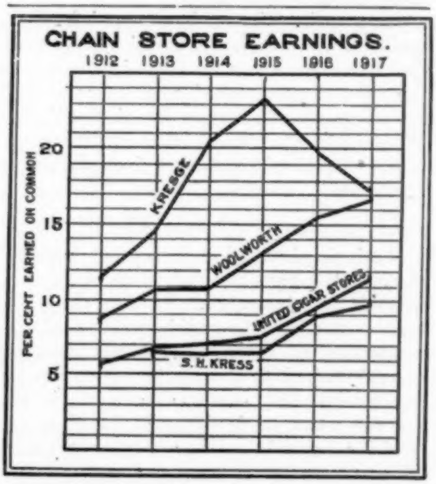
Based on the same ideas, which are no more than the adaptation of a business with relatively high unit sales to a five- and ten-cent store basis, numerous grocery and restaurant chains which are more or less local have grown up in a familiar manner in every large city in the country. Drug store systems, such as the Liggett-Riker-Hegeman, and the Owl Company have followed the same course. And to the New York public the familiar slogan of "A Penny a Pound Profit" has become synonymous with the Loft chain of candy stores.

Meeting Higher Costs

A year or two after the war broke out there was some trepidation among investors in chain store stocks—mention of the fact that almost without exception there is no such thing as bonded debt among these concerns had almost been forgotten—as to the probable effect of increasing prices upon the five- and ten-cent business. For a time talk of curtailed profits and difficulties attending the purchasing end of the business stirred up quite a turmoil.

But earnings expansion continued, and the hard facts as expressed in dollars and cents belied the prophets of calamity.

The S. S. Kresge Co. added fifteen-cent articles to its repertory in March, 1917.



Some concerns already had a twenty-five-cent limit. Higher costs have been met in two ways: (1) by lowering the unit of sales—that is, where a group of like articles has been sold for a nickel or a dime the number of articles in the group has been cut; (2) by reducing the size of separate articles—as, for instance, a certain line of handkerchiefs were reduced from thirteen inches square, the former measurements for popular-priced goods, to twelve inches square. Increases in purchasing prices of from 10 to 30 per cent have been successfully met in this way.

Moreover, the practical working out of the economical theory that when prices are high and buying power is limited, the dol-

lar seeks the place where the greatest values are obtainable, has been to the obvious advantage of the five- and ten-cent chains. This tendency has been most pronounced in Christmas week sales, which have made new high records in the last few years. December sales of the F. W. Woolworth Co. have reached a new high monthly record every year since 1914.

Woolworth's December Sales

1914........	$10,050,853	1916........	$13,636,512
1915........	12,193,735	1917........	14,590,924

In order to reach the gross turnover of close to $15,000,000 last December, the Woolworth stores must have taken in fully a half-million dollars in nickels and dimes every business day.

High prices have, however, left their mark on the present financial structure of the chain-store systems. It is interesting to trace the effect of heavier costs as revealed by recent annual statements of the F. W. Woolworth Co., which may be taken as fairly typical of conditions throughout the whole field.

Rise in Inventories

Analysis shows that increasing costs of merchandise have resulted in an absorption of cash into inventories; so that there has been a particularly rapid swelling of the proportion of inventories to net working capital (which is the excess of current or quick assets over current liabilities) in the last two years, while the ratio of cash to net working capital has faded sharply away. The accompanying graph shows this development very clearly. While the ratio of inventories to net working capital was rising from 73.3 per cent. in 1915, to 97.5 per cent. in 1917, the proportion of cash fell from 26.6 per cent. to 2.5 per cent.

Stated in the actual figures of the balance sheets, the cash item of $4,012,430 at the close of 1915, had shrunk to only $445,522 by the end of 1917, while the inventory item was expanded from $11,062,314 to $17,278,602.

But such a development in a business which liquidates its inventories so rapidly as this is no cause for alarm. There is, however, good reason to believe that the sponging up of cash resources into stocks of goods on hand will be a deterrent to the establishment of new stores. The chain-store system has always been essentially self-propagating—by parturition, as it were. Each new store has been a "chip off the old block" and made of its accumulated surplus. If, therefore, cash continues to flow into new goods for old stores, will there be the wherewithal to carry on the established program of expansion?

Turning again to the Woolworth graph we find a rather conclusive answer to this question. The line which represents the yearly percentage of increase in the number of stores (figured on the basis of the number of stores in existence at the beginning of each year), it will be seen, made its most pronounced upturn in the year following the period of greatest proportionate cash holdings. In 1915, cash recorded the highest proportion, at 26.6%, while in 1916 the greatest increase in the number of stores was recorded, with a gain of 14.2%, as compared with 9.2% gain in the previous year. The cash ratio fell to 10.5% in 1916, and was followed, in 1917, by a reduction in the percentage of new stores to 8.6%.

From this study of past performances, it would seem likely that the latest sharp drop in cash will cause an even more sharply defined retardation of growth. This is the consideration that appears most prominently in the foreground of the immediate future of chain-store development.

The Future

For the longer outlook, it would seem that the possibilities of growth are permanent, so long as the world moves on. The chain store started with a counter of knickknacks in an obscure country store, and it has grown to a wonderfully efficient machine, retailing hundreds of millions of dollars worth of goods annually. It has cut the combined profits of the jobber and the retailer to the thinnest margin. It has already begun to encroach upon the profits of the manufacturer, and his field of activity. Perhaps, in the spirit of prophecy, it would not be far out of the way to predict that its greatest development in the future will be in this direction.

"Direct from the Manufacturer to the Consumer—Over-the-Counter for Cash" is writ large on the guidepost to the future.

Right and Wrong Methods of Investment and Speculation

XI—Why Fundamental Factors Cannot Be Depended Upon for Market Guidance

By RICHARD D. WYCKOFF

THERE is a class of people who operate on facts; viz., earnings, intrinsic values, crops, the money situation and other fundamental statistics.

They aim to buy when prices are comparatively low, selecting stocks whereon dividends have been consistent and earnings stable over a long period of years. They usually take an investment position by either carrying their securities on a large margin or paying for them in full. Comparatively few work on the short side, although the number is increasing yearly.

If their purchases were made solely on the basis of intrinsic values, they would be more successful than those who act on the so-called news. But with these intrinsic values they mix the so-called fundamental statistics, and the results are often highly confusing.

A leading magazine of general circulation once called attention to the fact that several analysts who make a business of forecasting the market on this basis were not able to agree, and that in some cases they had been fearfully wrong.

Doctors Disagree

If the financial situation could be accurately diagnosed and forecasted by means of fundamentals, it would seem that there should be some harmony of opinion on the part of those who work with this material. But their widely diverging views apparently prove that some or all of these students are wrong either in their methods, their premises or in their deductions.

Following are some of the factors which cannot be analyzed or anticipated by a study of railroad earnings, crop conditions, the money situation and similar elements: In the first place, fundamentals do not take into account the vitally important factor—manipulation. It is a fact that large operators are able to work the market up and down within a considerable range, regardless of a threatening or promising financial outlook. Insiders also have means of knowing in advance when certain unsatisfactory conditions are to pass away and their operations are conducted accordingly.

No amount of study in the field of statistics will give one the slightest hint as to Supreme Court decisions, Government decrees, submarine policies, stock market object lessons, big shake-outs, etc., all of which can take place without fundamentals being affected. You can have all your fundamentals right and draw wrong conclusions. Your conclusions may be correct but one fundamental which you overlook may upset all your calculations.

There are unknown factors which nobody can analyze. These are continually cropping up and nullifying all those which are known. We have frequently seen what war and political uncertainty will do to the stock market. This is something which no statistician can figure out and no forecaster predict. Such dangers sometimes gather and break in a day or a week, while all other elements remain bullish. Interstate Commerce Commission rulings, Supreme Court decisions and Federal rulings do not require a financier or a statistician, but a lawyer, to extract their true meaning.

I claim that one of the primary reasons why the public loses hundreds of millions in the security markets every year is that they base their operations on the news, the facts and the fundamental statistics.

One need spend but a few months in Wall Street to find that the movements of the market cannot consistently be reconciled to such factors. Almost every day we see the market advance on bad news or break in spite of favorable developments.

The Hopper

Wall Street is a great "hopper" into which, all day long, there pours an unceas-

ing stream of news, statistics, decisions, railroad and industrial reports, Government estimates, court rulings, corporation announcements, and last, but not least, rumors and tips. None of these things in themselves move a single stock so much as an eighth of a point.

In order to make this clear, we will suppose that some company of great financial strength, such as the Union Pacific R. R. Co., without any warning whatever, be placed in a receiver's hands. If the last sale of Union Pacific were 120, the stock would not decline even to 119⅞ unless owners were willing to part with their holdings at that figure.

It is therefore not the news, nor the facts, nor the statistics, nor the announcements, that produce the fluctuations, but the effect of all these things on the minds of men.

Every order which is executed on the New York Stock Exchange has back of it a reason or a hope or a fear, and all the news and the facts, the rumors and the tips which produce reasons, hopes and fears, poured into the financial "hopper" have a certain influence on the minds of traders and investors, causing them (directly or indirectly) to buy or sell. It is this effect on all these individuals which may be definitely established as the underlying cause of the movements in the market.

There is also what we might designate as a "secondary effect"—that is, a certain wave of buying, indicated on the tape, encourages others to go in on the long side. There is nothing more suggestive or irresistible than the action of a stock while undergoing a sharp advance. People like to follow a crowd. They say, "This stock is going up. Let's buy some of it." This produces what I have called the "secondary effect."

Then we must consider the technical position, the attitude of those who manipulate the leading stocks, and the character of the manipulation. If large interests are holding the market steady at a certain level, their supporting orders will prevent raiding by professionals on the floor and will encourage those who have long stocks to hold them. On the other hand, if this most important class of operators be indifferent to a two, three or five-point decline, they lower their supporting orders or reduce the quantities in their scale orders. At such times bad news, or a weak technical position, encourages floor traders to hammer the market, and this in turn produces selling by outsiders.

Very often the market is left to take care of itself. At such points large operators wish to observe just what it will do without manipulation. The market then demonstrates whether it is technically weak or strong, and gives them a better line on the position of the public.

The late J. P. Morgan himself did not know how the Street would take a certain announcement, or what the effect of his own buying and selling would be. Mr. Morgan was a half a million share trader. John D. Rockefeller's outright purchases in accumulation periods ran into hundreds of thousands of shares. His brother, William, who is more or less withdrawing from the market, formerly swung enormous lines. But none of these great speculative factors, nor all of them combined, were big enough to withstand, beyond certain limits, enormous buying or selling by the speculative public and investors.

There are certain stages in the great downward swings where if some large operator were to buy 500,000 shares, he might check the decline, but finally he would be swept off his feet. When purchases of this size are made, it is usually because the buyer knows of certain developments which will change the mental attitude of the public.

On the other hand, if in one stock market session one large interest were to buy 500,000 shares, and the public 50,000 shares on balance, and other large speculators were to sell 600,000 shares, the market would decline in spite of the concentrated buying.

Supply and Demand

In the final analysis therefore we find that the movements of the security markets are governed by the same law that in normal times governs the market for all materials, commodities and labor the world over, viz.: Supply and Demand.

This being true, it naturally follows that *the only sound way to judge the market, and to forecast its future movements, is to accurately gauge supply and demand.* In other words we must, if we are to be successful in our investing and trading, *learn to judge the market by its own action,* for

its fluctuations, whether hourly, daily, weekly or yearly, are but the expression of a composite mind; that is, the minds of millions of people whose buying and selling orders are executed on the floor of the New York Stock Exchange.

In these transactions, which appear originally on the ticker tape, and are thereafter tabulated in the newspapers in various ways, we find the real story of the day's tug-of-war between bulls and bears, as well as the most reliable indicator of the future course of prices.

In the next issue Mr. Wyckoff's subject will be: Judging the market by its own action.

Comparison of Leading "Marines"

International Mercantile Marine and Atlantic Gulf, Gulf & West Indies—"Cat and Dogs" Which Have Made Good—Earnings and Prospects

By MEREDITH C. LAFFEY

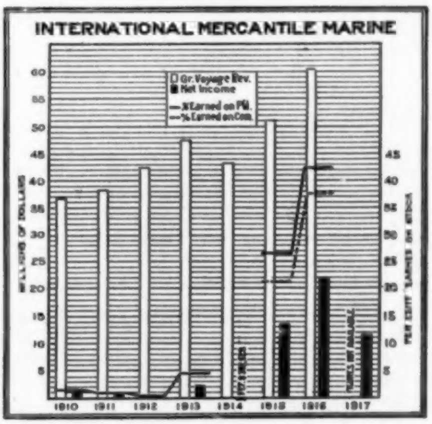
WHEN discussion turns toward the monstrous corporate profits which followed in the wake of war, probably nine out of ten minds immediately begin to think of steel. Because of the great extent of that industry, and the broad distribution of steel stocks, there is probably no industry, except it be agriculture, where a greater number of persons have been directly interested in the unprecedent earnings of the last two years.

Closely following steel, however, came copper, and shipping, the latter in many ways the most spectacular and romantic of all, and typified by the great International Mercantile Marine Company. For many years before the war shipping had been in the doldrums, and this company, bucking against the intense competition of the government-fostered German lines, and handicapped by a heavy capitalization, failed to weather the drop in traffic which followed the outbreak of the war, defaulted on its bonds in October, 1914, and went into receivership in April, 1915.

The outlook was of the blackest kind. The preferred stock sold down to 3, the common to 5/8. The subsequent rise which, in the space of two years, carried the preferred to 125 5/8, and the common to 50 7/8, forms what may properly be termed one of the most remarkable stories ever recorded by any company engaged in a purely commercial business, with no patented processes or control of rich natural resources, but merely engaged in the centuries old work of transporting goods by water.

Marine's Property Owned

The International Mercantile Marine Company is an Anglo-American concern, incorporated in 1893 under the name of the International Navigation Company, the name being changed and the stock largely increased in 1902. It is a holding company and has always been interested primarily in transatlantic carriers. The various subsidiaries with the amounts of their stock, their flag, number of vessels, and tonnage are given in Table I. The two latter figures have been greatly altered by sink-



ings, and to a lesser extent by additions of new ships, but will serve to give an idea of the relative importance of the various lines.

The principal subsidiary is shown by the Table I to be the Oceanic Steam Navigation Company, or White Star Line, which formerly operated the big, crack liners of the combine, and competed with the Cunard, North German Lloyd and Hamburg-American lines, in the fast, expensive express service which was so costly to maintain that it was hardly sound business.

TABLE I.
INTERNATIONAL MERCANTILE MARINE'S SUBSIDIARIES.

Line	Stock Outstanding	Flag	Number Vessels	Tonnage
International Mercantile Marine Co.	....	American	6	65,237
International Navigation Co.	£700,000	British	4	54,133
Societe A. de N. Belge-Americaine	Fr. 13,845,000	Belgian	2	17,408
Oceanic Steam Navigation	£3,750,000	British	33	471,523
Atlantic Transport Ltd.	£1,000,000	British	14	102,346
Atlantic Transport, West. Va.	$3,000,000	American	2	27,278
British & North At. Steam Nav.	£456,920	British	6	43,289
Frederick Leyland & Co.	£2,614,350	British	44	277,426
			111	758,640

The Leyland Line had an even larger number of ships than the White Star Line, but a much smaller aggregate tonnage, the vessels being mostly medium sized freight carriers averaging about 6,300 tons.

As capitalized before reorganization, the International Mercantile Marine was commonly regarded as "watered," and as the statement shown in Table II. amounts to roughly $240 per ton, it is apparent that this reputation was not unfounded.

From 1904 to 1913 gross revenues gradually expanded, but the heavy fixed charges consumed very nearly all the net revenue, and in only the year 1906 was as much as $4,208,199 cleared, or a little over 8% on the preferred stock. Had adequate charges been made for depreciation, instead of the approximately 2% of the total capitalization which was charged off annually, the record would have been still worse.

Formerly in Cat and Dog Class

In view of these conditions, it is small wonder that the stocks were regarded as belonging to the cat and dog class, and that bankruptcy ensued with the general crash following upon the outbreak of the war. In 1914, net earnings fell off very sharply to a point below that of any year since 1909. Then gradually there developed the tremendous shipments to Europe of munitions, food, etc. With a merchant marine reduced by the tie-up of German vessels and by the commandeering of domestic ships for admiralty use, ocean rates, left to seek their own level, soared. Profits grew by leaps and bounds —in fact, became almost scandalous. As more and more ships were taken over under Government charter at rates below the market level, and as heavier taxation was imposed, the crest of the wave was passed, but profits are still far above the pre-war figures.

The receiver was discharged in October, 1916, just eighteen months after his appointment. The capitalization had been readjusted by paying off 43% of the 4½% and 5% bonds in cash, and by giving new 6% bonds for the remaining 57%. In a year and a half, this bankrupt concern was able to pay off over $30,000,000 of its debt, and have left a net working capital of $27,000,000 where it had $2,335,000 two years previous. About $16,000,000 of this working capital may be regarded as an offset to ships lost, but even so the transformation in financial condition is more than wonderful. The stock was undisturbed.

TABLE II.
INTERNATIONAL MERCANTILE MARINE CO.
Capitalization as of Dec. 31, 1914.

Funded Debt, includ. subsidiaries	$76,328,055
Preferred Stock, 6% Cum.	51,730,971
Common Stock	49,931,735
Total	$177,990,761

In Table III is given a summary of the

income for the past four years, which is a study in contrasts.

As evidence of how far the rise in rates accounted for the jump in profits, it may be stated that the market rate in 1916 was about $100 per ton as compared with $4 before the war. The British Government is understood to pay about $10. Notwithstanding the much heavier expenses, the operating ratio fell from 89.2% in 1914 to 66.8% in 1916, which meant a profit of 33.2 cents per dollar of business as compared with 10.2 cents two years before.

TABLE III.

INTERNATIONAL MERCANTILE MARINE CO.

Income Account

	1914	1915	1916	1917
Operating Income	$4,678,112	$16,839,349	$20,130,569	....
Other Income	2,242,030	4,307,589	9,514,105	....
Total Income	$6,920,142	$21,146,938	$29,644,674	....
Bond Interest and Depreciation	7,222,670	7,565,277	7,867,512	....
Balance	Def. $302,528	$13,581,661	$21,777,162	$11,500,000
Earned on Preferred	....	26.3%	42.1%	22.7%
Paid on Preferred	....	....	....	16%
Earned on Common	....	21%	37.5%	17%

Present Outlook

In 1917 the initial dividends on the preferred stock were paid, and also a distribution of 10% on account of back dividends, which reduced the balance due to about 72%.

Like everything else, the marine stocks were well punished in the decline of last fall. The following statement gives the high of 1916, the low of 1917, and the present quotation:

	Preferred	Common
High 1916	125⅝	50⅞
Low, 1917	62⅝	17⅛
Present	94	26
Net Decline	31⅝	24⅞

The net decline for the preferred has been put at 31⅝, for the reason that 10% in back dividends has been paid. This issue is comparatively one of the most stable of the war stocks and has been supported by hopes of further disbursements on account of back dividends. The common has naturally been more erratic, and, except as a pure speculation, is far less attractive than the preferred. By the time that all, or even a part, of the back dividends on the preferred are paid off, the shipping business may be on a much less profitable plane. Meanwhile the preferred must continue to receive at least its 6%, or a very fair return on its selling price. The average earnings on the preferred for the past two years are 32.4% on par or 36% upon the current quotation.

A. G. W. I.

The other big shipping company listed on the New York Stock Exchange is the Atlantic, Gulf & West Indies Steamship lines, which has also been making quite a name for itself. Like Mercantile Marine, the A. G. W. I. is a holding company. The principal subsidiaries, the amounts of their stock (almost entirely owned by the parent company), the number of ships owned, and their tonnage are given in Table IV. The last two items are not so up to date as might be desired, but are the latest available.

TABLE IV.

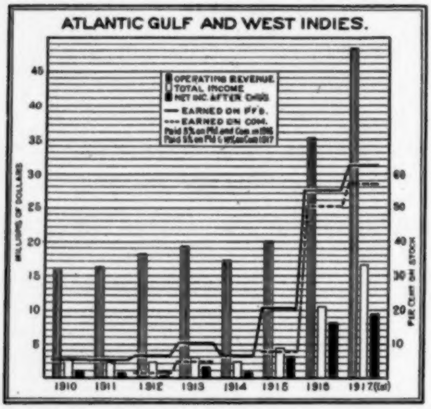
SUBSIDIARIES OF THE ATLANTIC GULF & WEST INDIES.

Company	Stock Outstanding	Number Vessels	Tonnage
Atlantic Gulf & W. I.	......	10	*35,000
Clyde Steamship Co.	$7,000,000	23	58,017
Mallory Steamship Co.	7,000,000	14	52,588
N. Y. & Cuba Mail	10,000,000	12	57,741
N. Y. & Porto Rico	4,000,000	13	39,145
Southern Steamship	90,000	3	6,207

*Estimated.

The company had in all about 300,000 tons in December, 1917, which would make the A. G. W. I. from one-half to one-third the size of Mercantile Marine. The former's fleet is, however, made up of smaller units, the vessels being generally

of the coast type. The tonnage owned by subsidiaries amounted to 265,886, of which 91.4% were under requisition or charter by the Government in December. Those left in regular operation were small, averaging 2,000 tons. The Government rates are regarded as very fair, and the war risk insurance is paid also. If any vessels are lost in service, insurance of between $170 and $180 per ton will be received. That little need be feared by the stockholders from submarine losses is evident from the statement that 300,000 tons at $180 per ton are equal to very nearly the entire capitalization of the company.



Included in the sum of $23,000,000 are the proceeds of the sale of the company's interest in the Mexican Navigation Company to the Sisal Commission of Yucatan. The A. G. W. I. formerly owned 3,400 of the 4,500 shares of stock of the Mexican Navigation Company, which operated a fleet of between 15,000 and 20,000 tons. The Mexican company sold this entire fleet for around $4,500,000, or about $250 per ton, according to the *Boston News Bureau.* The amount realized by the A. G. W. I. as its share must have been around $3,300,000, or $22 a share on its common stock.

The capitalization of the Atlantic, Gulf & West Indies is given in Table V.

Comparison of Funded Debts

There would seem to be little to choose between the A. G. W. I. and Mercantile Marine in respect to funded debt, with the odds a trifle in favor of the latter on a per ton basis, but there is this important difference:

Mercantile Marine 6's are subject to only a 1% sinking fund, while the A. G. W. I. sinking funds will retire over $14,000,000 by October, 1934, or in sixteen and one-half years. In 1909, the holding company and subsidiaries together had a debt of $31,588,120. The reduction of $5,281,120 since that date shows the steady way in which the debt is being retired.

The two stock issues together amount to $29,943,300 against $101,597,900 for Mercantile Marine, giving the A. G. W. I. a much smaller base upon which to spread its profits. These profits were not very thrilling before the war. Gross ranged between $13,520,981 and $19,407,139 from 1909 to 1914, inclusive, and operating expenses were around 85%, much like those of Mercantile Marine, and left a slim margin after fixed charges for the preferred stock. It was able, however, to maintain its solvency without trouble, and the working position was always fairly good. No dividends were paid on the non-cumulative preferred stock, though the average earnings for the six-year period were 6.86%.

TABLE V.
CAPITALIZATION, ATLANTIC GULF & WEST INDIES STEAMSHIP LINES.

Bonded Debt, including subsidiaries	$26,307,000
Preferred Stock, 5% Non Cum.	14,979,000
Common Stock	14,963,400
Total	$56,250,400

The A. G. W. I., not being a transatlantic carrier, did not feel the war stimulus quite so early as did Marine, and while Marine's big upturn came in 1915, it was not until 1916 that Atlantic Gulf's prosperity compared favorably with that of the larger company. The operating ratios shown below partly reveal this:

OPERATING RATIO

	A.G.W.I.	Mer. Mar.	A. G. W. I.'S Advantage
1914	85.7%	89.21%	3.42%
1915	76.9	67.02	*9.88
1916	70.2	66.78	*3.42

*Mercantile Marine's advantage.

In Table VI is given a summary of the

company's earnings for the last four years, the 1917 figures being a rough approximation based upon the actual earnings for nine months.

Although the A. G. W. I. was slower in getting started, it appears to have done better, comparatively, in 1917 than Mercantile Marine.

The movement in the stocks has been totally different from that of Marine. In the first place, they started from a little higher level, though at bottom in 1915 instead of in 1914. Secondly, the preferred rise was limited by its 5% rate, and lack of cumulative feature, while the common soared a trifle over Marine preferred.

	Preferred	Common
Low, 1915	9⅝	4
High, 1916	73	127⅞
Low, 1917	58¾	87⅞
Present	61	112
Net Decline	12	15⅞

General Outlook

At its current quotation, the preferred yields 8.1%, and is fairly attractive. The company is reported to have bought in about $1,200,000 of this stock last year, and a reduction of its outstanding amount, coupled with the debt reduction and strong working position, gives it substantial investment value.

The amount earned on the common in the last two years averages about 54% on par, or 52% on the selling price. By this test A. G. W. I. common looks somewhat more attractive than Marine preferred, but the two issues are not strictly comparable because the A. G. W. I. has a substantial amount of preferred standing before its common. As previously stated, the two preferred stocks are also on totally different planes.

Both companies are proceeding cautiously in the distribution of cash, as they must in view of the great uncertainties now hanging over them. Because of the sold-out condition of the yards, they cannot at this time spend the proceeds of their operations for new tonnage. Their only course is to sit tight and hold a big cash reserve.

The great reduction in the world merchant marine from submarine sinkings will undoubtedly cause high rates for some time after the war ends. Ship building will probably continue active in order to take advantage of this situation, until the inevitable overproduction made possible by the enormous gain in building capacity, especially in this country, has brought a reaction. Should this reaction come, as it probably will, if at all, with a great world-wide depression—an aftermath of the war—the shipping industry will again have to pass through a crisis in its affairs. It is considerations of this kind on the part of investors which keep the shares down where they are.

Both Marine preferred and A. G. W. I. common must of course be rated as speculative, because of the great number of unknown factors which enter into their future. In view of the big earnings being steadily piled up to their credit, the investor who buys during a period of depression in the general market ought to be reasonably assured of a prompt recovery in these issues when conditions improve. Marine common will doubtless sympathize over a narrower range with the broad movements of Marine preferred.

TABLE VI.

ATLANTIC GULF & WEST INDIES STEAMSHIP LINES.

Income Account

	1914	1915	1916	1917
Operating Rev.	$17,145,454	$20,121,708	$35,175,970	$48,400,000
Operating Inc.	2,444,628	4,631,617	10,481,251	....
Other Inc.	409,702	392,295	284,352	....
Total Income	$2,854,330	$5,023,912	$10,765,603	$12,400,000
Charges	1,910,982	1,984,499	2,530,936	3,100,000
Net Income	$943,348	$3,039,412	$8,234,667	$9,300,000
Earned on Pfd.	6.3%	20.3%	55%	62.1%
Paid on Pfd.	....	....	3¼%	5%
Earned on Com.	1.3%	78%	50%	57.2%
Paid on Com.	....	....	....	10%

Studebaker's Fall From Grace

Is the Market Discounting the Passing of Dividends?—Company's Working Capital Position—An Estimate of the Stock's Future

By RALPH HILSCHER

BACK in 1915 the market discounted, at 195, almost unlimited prosperity for Studebaker, and fat, continuous dividends. The stock paid 5% in 1915, and 10% in the dizzy year 1916. In 1917 the company paid 7% in all on the common, and in August, 1917, the directors ordered the September dividend to be at the rate of 4%.

Now, at around 40, the market is perhaps discounting the elimination of dividends on the common stock. Is the market wrong again? Is Studebaker one stock that the market isn't able to measure?

Mr. A. R. Erskine, the president of the Studebaker Corporation, stated just the other day: "Cars are now being turned out at a rate of 40 a day, which will be increased to 100 per day within three weeks and 150 within six weeks. As far as I can see, there is absolutely no reason for the pessimistic rumors that have been circulated with regard to Studebaker affairs." Mr. Erskine figures that the company will produce about 30,000 cars this season. To be sure, the company sold 42,357 in 1917, 65,885 in 1916, and 46,845 in 1915, but war conditions rule this year, and all the manufacturers have revised downward their production schedules, suiting at the same time a reduced public demand and possible commands by the Government. However, half of the Studebaker manufacturing facilities are working on Government orders.

Seven Years' Profits

The company's report for the calendar year 1917 points out that the total net profits for the seven years 1911-1917, inclusive, were $30,126,600, of which $12,271,900 was disbursed in preferred and common dividends, $2,535,000 was used in reducing the preferred stock from $13,500,000 to $10,960,000, while $15,319,700 was plowed back into the business. Net sales in 1917 were $50,147,500, compared with $28,487,900 in 1911, and the net working capital was $23,535,266 on December 31, 1917, an increase of $9,654,533, or 69.6%. Bank loans were reduced from $13,231,500 on July 1, 1917, to $7,400,000.

The Unfavorable Factors

In view of all the above, what can those who circulate pessimistic rumors have to back their words? Something like this:

This year's line of cars is new, and is in much better popular favor than last year's offerings, but this is April, and the company is getting its production for 1918 started late. Even the company's officers do not appear particularly enthusiastic about the $16,000,000 Government business. It is very, very welcome, but the United States is now a close buyer, and profits on Studebaker's orders for the Government will not make up for loss of more lucrative business.

Taking up again the number of cars sold, sales in the first quarter of 1917 were 18,603, as compared with somewhat fewer in the same period of 1916; but the remaining nine months of 1917 showed sales of only 23,754 cars, against 50,305 in the same period of 1916. President Erskine stated that net profits per car showed an even greater shrinkage than sales, no doubt the result of higher costs of labor and materials, together with transportation difficulties. The factors making for higher costs have not vanished, and it is questionable whether the increase in the sale price of cars will offset greater factory costs.

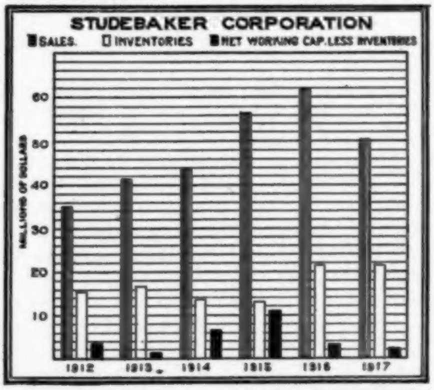
High Inventories

While the company has reduced its bank loans materially, inventories remain at high figures, and even if valued at cost, undoubtedly represent much less material than an equal amount of dollars in former years.

The company has been low in net liquid capital right along. This is shown by subtracting the inventory account from the "net working capital," which is generally taken

to include the inventories. Note, as shown by the graph, the small proportion of net liquid capital, as represented by cash and accounts and notes receivable, to the company's sales. In these days it is the ready cash position that counts. Studebaker will have to pay out something like $588,590 in cash by June 15 for Federal taxes. In England the profit tax is somewhere around 80%. Possible increased tax requirements must be considered in connection with the relatively poor position of Studebaker's liquid capital.

Pessimists further point out that the hold of the Studebaker company on the commercial field is not particularly strong, that it has no regular "truck line." Moreover, the Studebaker, and other large manufacturers, for that matter, have apparently neglected the very important small tractor field, which could be made to counter any losses



in profits in the automobile field. As a large manufacturer of farm wagons, Studebaker could logically claim a fair part of the farm tractor business—but where exactly would it get the necessary funds to take up an entirely new line?

Were the Large Dividends Warranted?

It appears to me that the company's management has been hopeful rather than conservative. The company has greatly expanded its production, but it could well have used a large part of the funds expended for extensions in building up a stronger financial position. It reduced its preferred stock outstanding, but was this conservative? Preferred stocks are not floating liabilities. An examination of the preferred stock provisions gives us a lead. A special sinking fund of at least 3% of the par of the outstanding preferred must be used for the retirement of this issue. No dividends may be paid on the common until the fund amounts to $1,000,000, and not over 6% until the fund amounts to $2,500,000. Large dividends on the common stock were desired. Therefore, the sinking fund for retiring the preferred worked overtime, and the company's cash position suffered.

Studebaker showed earnings of 3.39% in 1911, 4.95% in 1912, and 3.12% in 1913. In 1914 earnings rose to 12.79%, were 27.46% in 1915, 26.14% in 1916, and 9.11% for the past calendar year. In view of the company's relatively poor liquid capital position, and the fact that the water in the common stock has not even today been entirely squeezed out—about $20 a share was represented by intangibles at the end of 1917—the question is more as to why 10% was ever paid on the junior issue, and not as to whether the 4% dividend will be eradicated. The company needed every cent when it was on a 10% basis, and it needs every cent now. In view of current financial conditions, it would seem somewhat optimistic to expect that the directors would order the 4% dividend continued, though as to what actually will be done at the meeting in May I do not presume to forecast. Of course, the Government may finance its future purchases from the Studebaker Corporation, but is it not as apt to curtail further the manufacture of automobiles not directly needed in the conduct of the war?

Stock's Prospects

The immediate outlook for the stock can only be described as in doubt. As to the long pull investment prospect, that depends on the conservation of the management and, of course, on the business conditions that are encountered. Studebaker is an old and respected company, but that doesn't help it for the future. President Erskine estimates 1918 profits at $6,000,000, against about $3,500,000 for 1917, but how much of this, if realized, will fall to the lot of the stockholder it would be hazardous to predict.

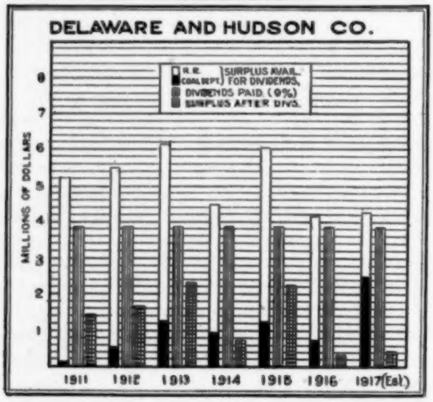
Earnings of Delaware & Hudson

Has Been Able to Maintain Its Present Dividend Rate Because of Big Coal Earnings—Possibilities Under Government Control—Dividend Record

By FREDERICK LEWIS

PREDICTIONS made during the last year that Delaware & Hudson would find itself unable to maintain its dividend rate at 9% have not been borne out. The only change made in the dividend policy was the abandonment of the custom of the last ten years of declaring in February the entire year's dividend, payable in quarterly installments. The directors now reserve the right to change the dividend during the year if this action is thought desirable.

The reason for this change was very frankly explained in a statement given out



by the directors after the meeting as follows:

"The accumulated surplus of the present time, as well as the earnings of the calendar year, 1917, now available for dividends, would fully warrant the declaration of a 9% dividend, payable in the same manner during 1918.

"The board of managers feel that the present time is one of great uncertainty as to all the elements which will determine cash resources and cash requirements during the ensuing year. Under these conditions it is plain, without anticipating any future action, that it would be wise not to commit the company irrevocably to large cash disbursements, to be made so far in the future, but rather to follow the general practice of making dividend declaration quarterly."

Coal Earnings

In the accompanying graph the reason why Delaware & Hudson was able to continue its present dividend is clearly indicated. The large increase in the earnings of the coal department was the factor that saved the situation. It will be noted that the greater part of the surplus available for dividends came from the coal department, whereas in previous years the coal earnings were but a small percentage of the total surplus.

Apparently a continuance of the dividend, therefore, would have depended on how long the coal department could keep up these unusually large earnings had not the United States Government stepped in and taken over the railroads, with a guarantee of earnings equal to the average of the three years ended June 30, 1917. This guarantee, of course, only takes in the railroad end of Delaware & Hudson's business.

Government Control

The Government's action in the case of Delaware & Hudson, as well as many other roads, will probably enable it to maintain its present dividend rate during the period of Government control.

A conservative estimate of what total income from the railroad department of Delaware & Hudson will be under Government control is $8,200,000 a year. Net income from the coal department the last five years has averaged about $1,500,000 a year. Indications at present are that coal earnings will exceed this five year average for some time and it is conservative to take this average to determine the probable earning power under Government control. Total

income, all sources, should reach at least $9,700,000. Fixed charges are approximately $5,000,000, leaving a surplus available for dividends of $4,700,000, equal to 11% on the capital stock.

TABLE I

DELAWARE & HUDSON

Earnings on Stock and Dividends Paid

	Earned on Stock	Paid on Stock
1904	11.31%	7%
1905	11.42	7
1906	12.58	7
1907	15.25	9
1908	12.39	9
1909	12.22	9
1910	12.54	9
1911	12.32	9
1912	12.95	9
1913	14.53	9
1914	10.84	9
1915	14.28	9
1916	9.78	9
1917	*10.00	9

*Estimated.

Dividend Record

Delaware & Hudson has one of the most remarkable dividend records of any railroad in the United States. In every year since 1826 a dividend has been paid, with the exception of twelve years, and the dividend record has been unbroken since 1880.

While a long unbroken dividend record such as this tends to instill confidence in a security, it should also bring up this question to the investor: Have the dividends been conservative? In other words, has a sufficient proportion of the surplus earnings been put back into the property. Considered from this angle, the record of Delaware & Hudson does not look so good.

Average Earnings

Table I shows the dividends paid since 1904, compared with the percentage earned on the stock. The earnings for the fourteen years average 12.4% on the stock as against an average of 8.7% paid out in dividends. The company, therefore, has paid out on the average 70% of its surplus earnings in dividends.

The capitalization of Delaware & Hudson consists of $57,126,000 bonded debt, the earliest maturity being July 1, 1922; $9,000,000 notes issued last September, due in 1920; $42,503,000 capital stock, par $100.

Position of Stock

At present prices Delaware & Hudson yields about 8½%. It is probable that its dividend will be maintained during the period of Government control, though this cannot by any means be taken as an assured fact, as the margin of earnings over dividend requirement is so small. The company in past years has been none too liberal in maintaining its property and there is apparently good ground for the opinion held by many people that the company would have pursued a wiser policy in the past if it had not paid out such a large proportion of its surplus earnings in dividends.

Another point to consider is that the financial condition is none too strong. Many other railroad stocks, in the opinion of the writer, hold forth much better prospects than does Delaware & Hudson. Union Pacific, for example, yields almost as much at present prices, is one of the strongest roads financially in the country and is earning its dividend with a greater margin.

TABLE II

Range of Stock

	High	Low		High	Low
1905...	240¾	178½	1912...	175½	162
1906...	234¾	189	1913...	167	147½
1907...	227½	123⅝	1914...	159½	138¾
1908...	181⅝	141½	1915...	154⅛	138½
1909...	200	167¾	1916...	156	148⅝
1910...	185	149¼	1917...	151⅞	87
1911...	174⅞	159½	*1918...	115⅛	105¾

*To April 1.

HILL'S TEST FOR SUCCESS

"If you want to know whether you are going to be a success or failure, you can easily find out. The test is infallible. Are you able to save money? If not, drop out. You will fail as sure as you live. The seed of success is not in you."—*James Hill.*

The Westinghouse Note Issue

Is It An Element of Strength Rather Than Weakness?—Company's Unfilled Orders Sufficient to Keep Plants at Capacity Operation for Over a Year—Prospects for Stock

By PRESTON S. KRECKER

WHEN the Westinghouse Electric & Manufacturing Company announced early last January that it would issue $15,000,000 of 6% one-year notes, there was hurried selling of the stock on the theory that this new financing was a sign of fresh trouble over war orders and the precursor of a bad annual report. Westinghouse has never fully recovered from the blow to its prestige suffered through revelation of the fact that its big Russian rifle contract had proved an elephant on its hands and it was comparatively easy for bears to knock a few points off the price of its stock.

Examination of the balance sheet of the last annual report, as of March 31, 1917, discloses among the liabilities the item "Notes payable—bank loans $15,100,000." That means that the company had been borrowing from banks to maintain a volume of working capital commensurate with its record total of business.

The sale of $15,000,000 notes was sound finance as it did not add to the liabilities of the company while it secured its position for at least a year by consolidating its borrowing. The indenture under which the notes were issued provides, moreover, that the company shall at all times while the notes are outstanding have on hand current assets equal to at least twice the amount of its current liabilities and that it shall not mortgage any of its properties during that period.

What Annual Report Will Show

This incident of the note issue served to bring to light some valuable data on the company's financial position in advance of the annual report, which will not come out until May. We learn, for example, that it had on hand unfilled orders, exclusive of rifle contracts, amounting to more than $130,000,000 on January 1, 1918. Sales billed by the company during its fiscal year of 1917 amounted to $89,539,442, so that they showed a gain for the first nine months of the current year alone of $40,460,558, or approximately 45%.

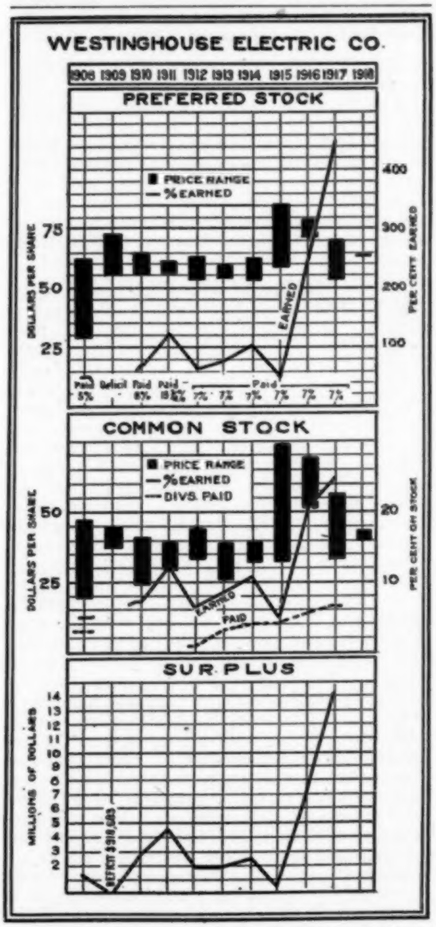
But this official statement of unfilled orders does not include the big Browning machine gun order which the New England Westinghouse company, a subsidiary, has booked from the government. Just what the scope of that order is has not been disclosed. It has been estimated that the government contracted for at least 30,000 machine guns of the Browning type with the Westinghouse people. This big machine gun order, unlike its ill-fated predecessor, the Russian rifle order, will prove a real asset, for it will be executed by now well organized thoroughly skilled labor. Work on this order has been started.

Current Assets and Earnings

As of December 1, 1917, the Westinghouse Electric Company had current assets of more than $71,000,000, while its current liabilities amounted to less than $24,000,000, which the new note issue did not increase because the proceeds were applied to payment of outstanding notes, leaving a net working capital of $47,000,000. The $24,000,000 current assets included the borrowing which was met by the note issue as well as appropriations for all excess profits and war income taxes, accounts payable, accrued interest and taxes and other items.

Net earnings of the company for the eight months ended November 30, 1917, after deduction of all interest charges and after setting aside a maximum reserve for all income and excess profits taxes, amounted to $9,032,823, which was only $582,101

less than they were for the corresponding period of the previous fiscal year when there were no war income or excess profits taxes to deduct, according to the official statement of the company. If this was the case, profits must have accrued rapidly in the



last four months of the previous year, for net earnings of $9,032,823 in eight months were at the rate of $12,042,752 for the full year, which would be equivalent to nearly 17% on the common stock after deduction of preferred dividends. In the fiscal year 1917 the company earned 24.17% on its common stock, but then, of course, there were no huge war taxes to deduct.

Working Capital

The Westinghouse Company has made it part of its fixed policy since its reorganization in 1908 to maintain ample working capital as will be seen by the following tabulation covering the last seven years:

1911	$30,311,269
1912	29,920,117
1913	32,134,200
1914	30,134,711
1915	28,230,469
1916	31,244,707
1917	57,236,492

Its last annual statement showed cash on hand of $12,476,321, accounts receivable of $32,757,632 and working and trading assets of $31,934,595. Total current assets were $82,253,313, while current liabilities were but $25,016,821, so that the directors in agreeing to maintain current assets equal at least to twice the amount of current liabilities during the life of the recent note issue were undertaking no unusual task.

Common stock outstanding totals $71,000,000, and preferred $3,998,700, making a total of $74,998,700. Par is $50 a share. Each class of stock is now on a 7% basis. The preferred stock is entitled to share alike with the common stock in all distributions of profits after 7%, but this sounds more formidable than it is because of the small volume of preferred stock, the total of which is limited to $4,000,000. Each additional 1% a year on the preferred means less than $40,000 out of profits, which would not be sufficient to penalize the common stock if surplus multiplies.

Prospects for the Stock

The reorganized company has pursued a conservative dividend policy. No distribution was made on the common stock until 1912, when 1% was paid. Three per cent. was paid the following year. In 1914 and 1915 4% was paid. The rate was increased to 5½% in 1916, and further raised to 6½% in 1917, and the current year again advanced to 7%. These distributions compare with average of 11.39% earned on the common stock in the last eight years. Selling around $40 a share, the common stock is on a basis of nearly 9%, which cannot be considered a high price in view of the earning power it has shown and the bright prospects of the corporation.

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor.*

RAILROADS

ATCHISON—Car Movement Greater— In the week ended March 22, Atchison, handled 28,914 loaded cars, against 28,530 in the corresponding week a year ago and 28,788 two years ago.

CHESAPEAKE & OHIO—To Spend $7,-500,000 for Improvements — Appropriated $7,500,000 for betterments and improvements without any intention of issuing new securities for the money. The funds have been taken out of the earnings for the twenty months ended December 31, 1917. It is a most unusual thing for a railroad to make such a large appropriation for betterments and improvements without selling new securities, and for that reason the action of directors attracted attention. The action of the directors has been taken in conformity with an understanding between the railroad and Kuhn, Loeb & Co. in the spring of 1916, when Chesapeake sold $40,-000,000 of 5% convertible bonds. While the road did not make any agreement, directors promised to put $7,500,000 of earnings back into the property during 1916, 1917, and 1918, in the shape of betterments without capitalizing the amount. At the time, directors had expected that it would take three years to supply the $7,500,000, but results made it possible to appropriate the money out of twenty months' revenues.

CHICAGO & EASTERN ILLINOIS—Sale of Securities—National Bank of Chicago purchased at public auction for $151,400 the following securities pledged by the company as collateral for certain notes: Chicago and Eastern Illinois ref. imp. 4s, 1955, coupons, July, 1913, $442,000; Evansville & Terre Haute R. R. gen. cons., 5s, 1942, coupon, April 1, 1915, $30,000; Evansville & Terre Haute R. R. ref. mtgc. 5s. 1941, Coupons July 1, 1915, $28,000; So. Ill. & Missouri 1st mtge. 4s, 1951, coupons, May 1, 1918, $50,000.

CHIC., INDIANA. & LOUISVILLE—Year's Report—In spite of an increase of $959,622 in gross operating revenue for the year ended Dec. 31, 1917, company suffered a loss of $353,771 in net as compared with 1916, according to the annual report. Operating expenses increased $1,135,499, which brought about a decrease of $175,777 in net operating revenue. Taxes increased $61,337 and there was a shrinkage of $158,-681 in non-operating income. The surplus after charges was $800,095, compared with $1,153,866 in 1916. After the payment of the 4% dividend on the preferred stock this left $5.72 a share earned on the $10,500,000 of common stock, compared with $9.07 in 1916.

CHIC., MIL. & ST. PAUL—Dividend Again Deferred—Directors at the regular monthly meeting voted, for the third consecutive time, to defer action on the regular common and preferred stock dividends, which, in the natural course of events, would have been paid April 1. The St. Paul dividend is normally paid semi-annually, and at the last payment amounted to 3½ per cent. on the preferred stock and 2 per cent. on the common. No action will now be taken, unless in the event of some entirely unexpected circumstances, until the last week in April. President H. E. Byram, in announcing the directors' action, explained that it was not thought advisable to settle the dividend question until the contract by which the Government takes over the road is definitely drawn up and signed, so that the management can tell exactly where it stands. Although they had been able, he said, in a general way to calculate what their return would be, they hoped for some special allowances to be made on account of the unusually large proportion of their earnings during the three standard years, which they had put back into the property in the form of permanent improvements. The principal interest of the St. Paul is in the carrying out of its scheme for the electrification of its western lines, and the continuation of this work will be taken up with the Government with a view of raising the capital needed.

CHICAGO & NORTHWESTERN—Annual Report—Report for 1917 shows total operating revenues of $108,264,983, an increase of $10,286,139; operating expenses of $78,758,988, an increase of $13,638,161; and with an increase of upward of $660,000 in taxes, etc., a decrease in net operating income of $4,020,325 to a total of $23,815,405. The decrease in balance carried to profit and loss, owing to an increase in the dividend payments on the common stock, was $4,004,551, the total surplus for the year being $5,265,182.

CHICAGO, ST. PAUL, MINN. & OMAHA—Bond Offering—National City Co., New York are offering $250,000 consolidated mtge. 3½% bonds, due June 1, 1930. Bonds secured by a first mtge. on 707 miles of road, and after April 1, 1919, when prior liens mature these will be an absolute first mtge. on 1,496 miles. Bonds are legal for savings banks in New York and Mass. They are offered at 84⅛ and interest to yield 5.25%.

DENVER & RIO GRANDE—Application for $2,500,000 to Pay Bond Interest—Application has been made to the Railroad Administration for an advance of $2,500,000 with which to pay interest on bonds and make improvements and betterments. It is understood that a reply has been received stating that the need of the Denver would be taken up promptly. While it hardly seems probable that the whole amount asked for will be forthcoming in the immediate future, it is believed that sufficient money will be advanced to clear up arrears. This includes semi-annual coupons on issues of Denver & Rio Grande bonds and the semi-annual coupon on the $16,200,000 first consolidated 4s of the Rio Grande Western, due April 1. It is stated that the interest on these various issues has been earned, but in view of the impounding of funds secured in the interests of the Western Pacific and the fact that during the last three months the company has not received anything on account of rentals from the government, it finds itself without actual money with which to meet these fixed obligations.

LEHIGH VALLEY—Earns 11.80% on Common Stock—Has issued its pamphlet report for calendar year ended Dec. 31, 1917, showing net income of $7,151,859 after expenses and charges, a decrease of $675,912 compared with 1916. After preferred dividends, the balance of net income available for the common was $5.90 a share, against $6.47 the preceding year. Edward H. Loomis, president of the company, in his remarks to stockholders said in part: "During the year 1917 your company handled the greatest tonnage and received the largest revenue in its history. At the same time tracks, facilities and equipment were fully maintained. Because of the serious fuel situation in the eastern part of the United States, evidences of which appeared in the early autumn, your company made special efforts to keep all mines located on its lines supplied with cars, and to transport coal to market with all possible despatch. As a result, it handled 14,916,894 net tons of anthracite, an increase of 1,182,040 tons over the preceding year.

MISSOURI PACIFIC—Stricken From List—Stock Exchange has stricken from the list Missouri Pacific first and refunding convertible 5% bonds, Series A, due 1959, Guaranty Trust Co., of New York, certificates of deposit, plain and stamped, Sept., 1915, interest for first and refunding convertible 5% bonds, Series A, due 1959, Central Trust Co. of New York certificates of deposit for Missouri Pacific Ry. Co., capital stock first assessment paid and assessment full paid.

N. Y., NEW HAVEN & HARTFORD—Debenture Issue—At the annual meeting on April 17, authority was intended to be asked to issue $16,758,000 4% debentures maturing in 1957, to be exchanged for similar obligations of the Providence Securities Co.; President Pearson later announced that legislation was enacted on March 21 relating to the operation of railroads when under Federal control, which requires approval before the issuance of preferred stock. The re-financing of the issue of notes maturing on April 15 has been arranged by the Director General. The offer of the proposed issue of preferred stock will therefore be withdrawn. President Pearson also announces that by reason of the Director General's plan for financing the $43,964,000 notes maturing April 15, the company will withdraw its offer to stockholders and debenture bondholders to subscribe to a like amount of new preferred stock.

PENNSYLVANIA—Cancel Special Fares—Application to cancel special train excursion fares between Philadelphia and Atlantic City and one-day excursion fares between New York and Asbury Park, Ocean Grove, Point Pleasant and Sea Girt, all New Jersey points, was made to the Interstate Commerce Commission by Pennsylvania.

ROCHESTER, SYRACUSE & EASTERN—Principal and Interest Payments—Notice should be taken by the holders of the 5% gold 1st mortgage bonds, secured by the mortgage dated May 1, 1905, made by railroad company to the Knickerbocker Trust Co. of New York, as trustee (Columbia Trust Co., now being successor in trust) that the bonds will be paid, principal and interest, out of the proceeds of the sale on the property subject to the lien of said mortgage.

SOUTHERN PACIFIC—New Equipment—Provision is being made to relieve the freight situation this year by a liberal equipment program which calls for building 117 locomotives, 3,600 freight cars and other equipment. Some of the orders have now been filled, but much of them is still in course of construction. Part of the new engines and cars will be built in the shops of the company at Sacramento and Los Angeles.

SOUTHERN RY.—Asks Increased Rates—Increases in the rates on sewer pipes and drain tiles from Chattanooga, Tenn., to points east and north, have been applied for by the Southern to Interstate Commerce Commission. An increase of 11 cents per 100 pounds is asked to Boston, Providence and Pawtucket; eight cents to New York; four cents to Philadelphia; three cents to Baltimore and two cents to Charleston.

AMERICAN CAR & FOUNDRY—Confidence About the Future—New York interests who are familiar with the facts of the Co.'s situation are extremely confident about the long range future of this corporation's $30,000,000 common stock. It was recently stated in a semi-official way that the Co. would create a reserve for the common stock sufficient to insure 8% dividends for five years to come. If such action is to be taken it would be a sequel to the closing of the fiscal year on April 30 next, and after officials and directors have had time to find out just where the corporation stands. The Co. has been paying for two quarters at the rate of 8% on its common, half in the form of a 4% regular dividend and half as an extra of 4%. So far as surplus is concerned the Co. could set aside out of its surplus of between $28,000,000 and $30,000,000 the entire $12,000,000 needed as a common stock dividend reserve of 8% for four years. It will hardly need to do this. If the extra of 4% or 20% for five years were put into a reserve fund it would undoubtedly be ample. Even under depressed conditions the company should be able to earn the regular 4% on its common. Co. is a beneficiary of enormous government orders for rolling stock. During the next year it would not be surprising if the company received orders for over $100,000,000 of government car work. This with its special war work and export orders would mean operations at better than a theoretical 100% of capacity. The peaks and valleys have been taken out of Co.'s business for some years to come, according to New York financial interests, who are extremely optimistic regarding the outlook for equipment securities in general and Car & Foundry in particular.

AMERICAN SHIPBUILDING—Capital Increase—An increase in capitalization from $50,000 to $5,000,000 has been decided upon by the Co., of Brunswick, Ga., which is reported as planning extensive additions to its shipyard in order to fill new contracts from the Government for steel steamships. Two 4,000-kilowatt turbo-generator units and three 8,800 cubic feet per minute air compressors will be included in the equipment, all of which has been ordered, for the $750,000 electric plant which the Chickasaw (Ala.) Shipbuilding Co. is constructing in connection with its $10,000,000 shipyard now under construction.

AMERICAN SMELTING & REFINING—Rejects Tax Compromise—Officials of Co. have rejected a compromise offered by state authorities in Aguascalientes, Mexico, in matter of a production tax which the state has attempted to levy on the company's smelter within its confines. The original assessment aggregated $9,000 monthly, but the Aguascalientes officials proposed to reduce the amount to $1,500 monthly should the company agree to make prompt settlement.

AMERICAN ZINC, LEAD & SMELTING—Surplus of $4,594,497 for 1917—This Co.'s report for year ended Dec. 31, 1917, showed profits from operations after costs—taxes, $1,694,559; miscellaneous profits, $85,613; total, $1,780,163; settlement with Minerals Sep. Co., $250,000; balance, $1,530,163; surplus Dec. 31, 1916, $4,904,317. Less surplus American Pipe Line Co. sold $11,410 adjusted surplus Dec. 31, 1916, $4,792,905 total $6,323,069; preferred dividends, $483,237; common stock dividends, $386,240; depreciation reserve, $859,094; total, $1,728,571; surplus Dec. 31, 1917, $4,594,497.

CANADIAN CAR—To Receive Another Car Order from Government—The Co. will receive about $3,000,000 worth more of car orders from the government, which includes the construction of passenger and refrigerator cars. This will make their sum total of all orders from the recent government grant $19,000,000, and will make between $40,000,000 and $43,000,000 of unfilled orders on hand.

CANADIAN GENERAL ELECTRIC—Profits for 1917—Shows a falling off in gross profits of $174,303 from the previous year, which is accounted for by the increased cost of labor and the lower margin of profits derived from the manufacture of munitions. The gross profits for 1917 were $2,051,609, as compared with $2,225,912 in 1916; $918,012 was deducted for depreciation in permanent and munition plants, compared with $1,040,491 in 1916. The net amounted to $1,133,596, a decrease of $51,824. Earnings after depreciation are equal to 12.42% on the common stock. Deducting $780,000 for dividends leaves a surplus of $353,596. This surplus added to last year's balance made a total of $966,293, from which the sum of $500,000 has been transferred to reserve, bringing the credit of reserve account to $4,000,000 and leaving a balance of $466,293 at the credit of profit and loss.

CORN PRODUCTS—No Consideration of Dividends on Common During Pendency of Suit—The Co. at the annual meeting said that the government attorneys in the suit for the company's dissolution had opposed the increase in the rate on the preferred stock, but that the lower court had left the matter in the hands of the directors. The Co. volunteered through its attorneys that there would be no consideration of dividends on any but the preferred stock during the pendency of the suit. An agreement had been arrived at with Food Administrator Hoover that products affecting the cost of living should be sold as near as possible on pre-war profits basis. The price of corn had advanced 150%, while the cost of the Co.'s products to the consumer had advanced only

from 30% to 90%. The Co. is now putting up 1,050,000 packages of its products daily. The sale of Karo had advanced from about 210,000,000 pounds to 400,000,000 pounds per annum, while sales of its new product, Mazola, were at the rate of 50,000,000 pounds per annum.

DISTILLERS SECURITIES—Buys More of Its 5s—The Co. now holds in its treasury, uncancelled, $949,000 of its 5% bonds. Since January 1 it had acquired and held $891,000 of the bonds. The purchases during March were $58,000. Upon cancellation of these bonds only $7,020,383 of this issue will remain outstanding out of the original $16,000,000. The average price at which the Co. has bought in its 5% obligations in recent years has been 72, high 82.

EASTERN STEAMSHIP — Another Steamship Chartered by Government—The taking over of the steamship Governor Cobb by the government for use as a training ship increases to five the number of Eastern Steamship's larger ships on charter to the government. It is understood that the government pays $15,000 per month net charter money for the use of this boat. The Co. is now getting close to $100,000 per month in charters.

EMERSON PHONOGRAPH CO.—Annual Meeting—At the annual stockholders' meeting, the company's directors were re-elected. This was the only business taken up at the meeting. The company's annual report will be issued next month. Decline in stock is due to liquidation of loans. The company's business shows a substantial monthly net profit.

GOODYEAR TIRE—Stock Offering—C. E. Dennison & Co., Boston, are offering at par $15,000,000 8% cumulative preferred stock of the Co. Stock is tax free in the Ohio and exempt from the Federal income tax. Dividends payable quarterly Feb. 1, etc. There are no outstanding bonds or mortgages and the Co. must maintain in quick assets above all debts not less than 100% of the par value of both classes of preferred stock outstanding and total net assets not less than 150%. Conditions of this issue provide that 10% of the largest amount of this issue at any one time outstanding is to be redeemed each year. Shares may be bought by the Co. in the open market or called at a fixed price, plus accrued dividend, before Feb. 1, 1921, at $105, before Feb. 1, 1924, at $110, on or after Feb. 1, 1924, at $115. The issue is listed on the Cleveland Stock Exchange.

INTERNATIONAL MERCANTILE MARINE—Comment on Financial Status—Earnings of $22.21 per share for the preferred stock of the Co. for 1917 were as compared with $39.99 per share for 1916. One of its principal sources of revenue is the dividends paid by British subsidiaries, and while the business of these companies kept up at an unprecedented rate, the return was greatly limited by the drastic restrictions on marine freight rates imposed by the British Shipping Comptroller. With the entrance of the U. S. into the war, the six Marine steamers flying the American flag were commandeered for service as transports at considerably reduced rates, curtailing the Co.'s return from this direction. Earnings of $22.21 per share amply provide for the regular 6% rate on the preferred stock and the payment of $10 per share on behalf of the accumulation on the issue, leaving a margin to add to the large cash surplus already built up.

INTERNATIONAL PAPER—Dividend Suit Voluntarily Ended—The suit by Ernest Turnbloom and Delavan A. Holmes against the Co. has been voluntarily discontinued. Final figures are likely to show common share profits after excess profits taxes and depreciation of between $22 and $23 a share. This would compare with common share profits in 1916 of 31.65%. For seven years' period to 1916, however, the company did not even earn the full 6% dividend for the $22,406,000 preferred.

PIERCE-ARROW—Net earnings in 1917 were $4,791,274; in 1916, $4,076,167. The Federal taxes were $1,161,802. After preferred dividends, the balance of net profit was equal to $11.19 a share on 250,000 shares of common stock of no par value, as compared with $13.08 a share earned in 1916.

SEARS-ROEBUCK—March Sales—Sales amounted to $17,159,830, an increase of $747,259, or 4.55%, over same month of 1917. For the three months ended with March, 1918, sales totaled $48,164,640, an increase of $2,822,839, or 6.23%, over the corresponding period of last year.

STUDEBAKER CORP—May Pass Dividend—The pronounced weakness in Studebaker stock has given rise to reports that the 1% quarterly dividends, which are now being paid will be passed at the next meeting of the board, due to be held within the next month or so. It is understood that during the first quarter of 1918, the Co.'s net earnings fell off heavily, although the exact amount of loss could not be ascertained. It has a considerable amount of Government business on its books, but it is not as profitable as returns shown from regular operations. The Co. has already gone into quantity production on the new models of passenger cars.

U. S. STEEL—Wage Increase—Employes of the United States Steel Corporation and all subsidiary companies will receive a 15% increase in wages commencing April 15. This increase represents the fifth of its kind since the outbreak of the European war, and is made in the belief that a larger production will result. About 268,000 men are affected and $50,000,000 will be added to the yearly payroll.

PUBLIC UTILITIES

How Cities Service Got Into Oil

Account of the Start of Its Spectacular Career—Present Rate of Earnings—An Investment Judgment of Its Stocks

By HENRY MINTON

AMONG other and myriad perplexities, the Financial Editor is called upon to solve such problems as: Is American Smelting & Refining a mining or an industrial company? Is United Fruit a sugar, fruit or a steamship company since it does a large business in all three industries and finally, but not least, is Cities Service a public utility or an oil concern?

The safe way to reply to the last question is to say that Cities Service is both. It was incorporated in 1910 in Delaware to control gas, electric power, traction and similar properties in various cities in the United States. During the first few years of its corporate life the holding company became one of the leaders in the public utility field. About the time that the oil boom was beginning to gather headway in this country Cities Service went in heavily for oil production, acquiring large holdings of prospective oil lands.

From that time on the course of the company was little short of spectacular. In 1911 the company showed but 8.23% on the common stock, and only 9.29% in 1912. Then earnings began to creep up: 10.71% on the common in 1913, 11.28% in 1914, 15.27% in 1915 and then the huge jump to 36.74% in 1916. This was the year in which the company began to realize heavily from its oil properties. In 1917 $60.73 was shown on the common stock.

TABLE I—LATEST EARNINGS OF CITIES SERVICE

	12 Mos. End. Feb. 28, 1918	12 Mos. End. Feb. 28, 1917	Month of Feb., 1918	Month of Feb., 1917
Gross earnings	$19,597,248.20	$12,309,710.75	$1,849,610.70	$1,681,868.02
Expenses	368,179.53	256,359.13	33,520.78	31,812.11
Net earnings	$19,229,068.67	$12,053,351.62	$1,816,089.92	$1,650,055.91
Interest on notes and debentures	2,680.70	172,408.59	213.65	303.43
Net to stock	$19,226,387.97	$11,880,943.03	$1,815,876.27	$1,649,752.48
Dividends, preferred stock	3,805,599.50	2,650,757.67	335,592.00	288,924.65
Net to common stock and reserves	$15,420,788.47	$9,230,185.36	$1,480,284.27	$1,360,827.83
Contingent fund	....	....	$877,355.69	....
Stock surplus	....	....	4,306,231.25	....
Surplus reserve	....	....	3,771,837.39	....
Surplus	....	....	17,324,262.04	....
Total surplus and reserves	....	....	$26,279,686.37	....
Num. of times pref. div. was earned	5.05	4.48		
Per cent earned on average amount of common stock outstanding	60.08%	44.81%		

How Cities Service Discovered Oil

The manner in which the Cities Service Company got into the "oil game" is interesting, and I do not recall having seen it in print before. It appears that one of the company's Kansas subsidiaries had a long, gas pipeline serving many communities in southern Kansas. This pipeline, which extended for more than a hundred miles, was fed at one end with the result that, if a sudden storm darkened the daylight and consumers all resorted to gas, the pressure became sub-normal and much inconven-

ience resulted. Even if the pressure was increased at the point of supply it required six hours to travel throughout the system. Obviously one remedy was to find other sources of supply along the route and near the other end of the pipeline.

One advantage of a big organization with working capital is that a problem like the one presented, can be tackled scientifically. Natural gas collects in convolutions of the earth's crust which are shaped like domes, and unless the topography is carefully studied and extensive experimentation made, it is obvious that one would be hardly likely to discover such a dome hundreds of feet below the soil, except by the barest kind of luck. That is the reason why the small prospector or "wildcatter" so often fails. First he lacks the knowledge and experience to tell him where to drill, and secondly he lacks the capital to continue his explorations beyond a certain limited point.

Acquiring Leases

As a preliminary to drilling for new gas sands, the company acquired leases of thousands of acres of territory in Kansas, and as this territory had been "explored" in a haphazard fashion for oil and had yielded no encouraging results, the options were obtained cheaply. And as is usual in such cases, they covered not only gas, but all mineral and oil rights.

After exhaustive experimentation and calculation, the area to be drilled was settled upon and work commenced. Astonishingly satisfactory results were obtained almost immediately. At 800 feet, oil was struck in quantity, and Cities Service was launched on its meteoric career. The further development of its oil business is oft-told history.

Table I which accompanies this article shows the latest reported earnings for the twelve months ended February 28 last. It also shows that these are running at about the 1917 rate. Table II gives a summary of the earnings' results for 1917. The "increase" column brings out the great gains registered in the last twelvemonth. The last column shows that in 1917 gross earnings increased about 90%, while net gained 91.4%. The net to the stock fell only a little short of an increase of 100%, while, owing to the great decrease in interest charges, the net to common stock and reserves totaling $15,179,706, showed the startling gain of nearly 111%.

The common stock of Cities Service last year paid 6% in cash and 6% in common stock. The rate has been increased to 9% for the current year, it being the expressed policy of the company that these stock dividends will be increased each year as long as the earnings and surplus warranted that course.

TABLE II—CITIES SERVICE—1917 EARNINGS

	12 Mos. Ending Dec. 31, 1917	12 Mos. Ending Dec. 31, 1916	Increase	Per Cent
Gross earnings	$19,252,492.84	$10,110,342.90	$9,142,149.94	90.4
Expenses	357,229.09	239,389.70	117,839.39	49.2
Net earnings	$18,895,263.75	$9,870,953.20	$9,024,310.55	91.4
Interest on notes and debentures	2,861.74	258,960.44	*256,098.70	*98.9
Net to stock	$18,892,402.01	$9,611,992.76	$9,280,409.25	96.6
Dividends, preferred stock	3,712,695.15	2,409,690.92	1,303,004.23	54.1
Net to common stock and reserves	$15,179,706.86	$7,202,301.84	$7,977,405.02	110.8

*Decrease.

TABLE III

Estimated Stock and Cash Dividends Accruing at the End of Five Years Based on the Present Dividend Policy, to a holder of 100 Shares of Cities Service Common Stock

Year	Original Shares	Total Stock Dividend	Total Shares	Total Cash Dividend
Jan. 1, 1919..	100	9.38	109.38	625.34
Jan. 1, 1920..	100	23.25	123.25	1,318.92
Jan. 1, 1921..	100	43.06	143.06	2,111.42
Jan. 1, 1922..	100	71.05	171.05	3,044.26
Jan. 1, 1923..	100	110.64	210.64	4,175.30

In this connection an interesting calculation has been worked out in Table III which shows what would accrue to the stockholder in cash and stock dividends, who bought 100 shares of Cities Service common on January 1, 1918. At the end of five years the common stockholder would have more than doubled his original investment, for by November 1, 1922, the number of his shares would total 203 45/100, and his cash receipts during that period would have amounted to $3,970.

Financial Statement

Too often the holding company is merely a device to escape showing the conditions of subsidiary companies. Cities Service follows the commendable policy of presenting a balance sheet of not only the holding company but also one which is a combined balance sheet of all its subsidiaries.

The total of quick assets of the holding company as last reported was $6,164,699 with current liabilities of only $680,670, giving a working capital of approximately $5,500,000, while the subsidiaries showed a working capital of approximately $3,700,000, thus giving to the combined companies a working capital of more than $9,000,000.

Position of Stocks

Selling at 75 and paying 6% the preferred stock of Cities Service yields a flat 8%. This would appear to be a fairly satisfactory yield in times even like the present, for the company's earnings are so large and their prospects so excellent for continuing to run large indefinitely, that the factor of dividend safety is one that the investor may consider pretty definitely and favorably settled.

The chief interest of the investing public is, of course, in the common stock. As the directors have stated, they intend to increase the stock dividend by at least 3% each year as long as earnings warrant, the question boils down as to how long earnings will warrant.

It is a safe prediction that they will warrant as long as the war lasts. The difference between the development of the Cushing oil field, which boomed so spectacularly and declined with equal spectacularness, and the oil field where this company is operating, is that the Cushing field was split up among many small and large owners. Each raced the other to put down wells and get to the precious fluid first. Hence it was not many months before the Cushing field resembled nothing so much as a large pin-cushion. Cities Service controls so much territory in the Kansas oil fields that it is able to go ahead with the development of its properties in a scientific and business-like manner. Its oil experts are of the opinion that its supply of oil will last for many years.

For that reason it appears that the common stock has some very attractive speculative possibilities, even at its present price of around 202. If the company is able to maintain its present common dividend schedule for the next five years, the return to the holder of common stock bought at the present time, as indicated in Table III, would be exceedingly handsome.

Refinery at Oklahoma City, Oklahoma. This plant is one of the string owned by the Empire Refineries, Inc., a subsidiary of the Cities Service Co.

In considering a railroad bond always look to the factor of how much the road has been spending on maintenance per mile. There is a reasonable comparison that may be made with other roads and there is a fair average against which the road's expenditures may be checked. This factor has a large effect on the net earnings, which are the earnings against which bond interest runs.

Future of Boston Elevated Company

Rapid Transit Elevated and Subway Lines the Burden—Digest of Recent Hearings—Service-at-Cost System Explained

By MORTON STURGES

THE encouraging thing in the Boston Elevated situation is the fact that Governor McCall saw fit in a special message to the Legislature on March 1 to urge prompt relief for the Elevated's present plight. The Governor recognized, the threatened strike of union employees having been averted by an increase of 2 cents per hour effective the same day the message was sent, that the cost to the company of this additional $500,000 per year must be met in some way.

"I have been thinking of this message for some time, said Governor McCall on March 2. "It is sent to the Legislature of my own volition, and its subject matter has been kept secret."

The message proposed the suspension of the law which limits the Boston Elevated's fares to five cents. It gives official recognition to the fact that the needs of the road have become so pressing that an immediate increase in revenue is the only remedy to prevent greater difficulties. Certain critics of the measure proposed have dubbed it a slipshod and temporary measure and it has been pointed out that such a temporary increase in fares would have but little effect in improving the fundamental troubles. Boston has become a great broad city of distances and a demand for better rapid transit has become very insistent. Uncomfortable cars, slow schedules, breakdowns and tieups are most conducive to the decentralization of the city.

F. J. McLeod, chairman of the Massachusetts Public Service Commission, at a recent hearing said in furtherance of this point, "the rapid transit lines of the company are breaking the back of the system and they will break the back of any system that tries to carry them, out of the receipts from car riders. It has never been done and it never can be done. In this case the problem will never be properly solved until the taxpayers assume their proper share of the burden. We hear a great deal about a car rider paying his way and paying for what he gets. I agree to that, but you should go a step farther and say that the taxpayer should also pay for what he gets. Men who do not ride in the cars at all get more benefits in many cases from the operation of these rapid transit lines than the car riders themselves. These lines in effect represent a duplication of existing street car facilities."

Of course, this was put forward principally for the benefit of the argument in favor of public control in which he believes highly, but the same line of thought applies equally to the danger of decentralization.

The investment in Boston Elevated, according to figures presented by Mr. Joseph B. Eastman, of the Commission, is $52,840,000. Under the service-plus-cost system so widely discussed and advocated a return of 6% allowed on this sum would be $3,170,000. Bonds outstanding bear interest rates at from 4% to 6%, calling for a total payment of $1,195,000.

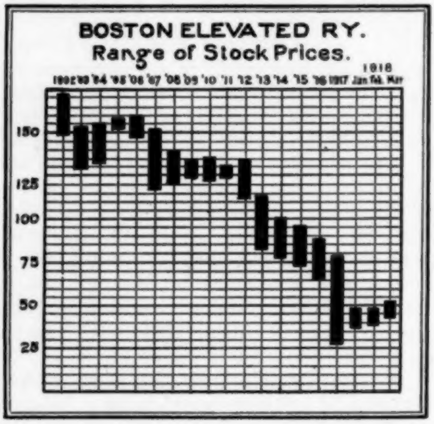
Subtracting this from the above allowance of $3,170,000, would leave a balance of $1,970,000, equal to 8.27% on the par value of $23,879,400, Elevated Stock outstanding. Mr. Eastman is opposed to the service-at-cost system as being liable to remove incentive to efficient management and maintains that the history of privately managed public service monopolies is checkered with exploitation, inefficiency and waste.

While Mr. Eastman's argument, was presented with much care and constitutes a living factor in the discussion, the masterly hand of Matthew C. Brush, president of the company, has been shown in his testimony. Mr. Brush created a mild sensation by displaying to the committee a truck load of exhibits composed of investigations and reports made on the Boston Elevated property during the past few years. Mr. Brush vigorously resented intimations that the management had been lacking in initiative and cited numerous examples of ad-

vanced practice. The total investment now carried by the company is $116,000,000 and in the immediate future will be $130,-000,000. The earnings in 1897 were $8,000,000 and now are $19,000,000. Since 1897 the earnings have increased 137% and the investment 364% and the population 49%. As compared with Boston the average per passenger ride in Cleveland is 2.19 to Boston's 4.4 miles.

What Service-at-Cost Means

Mr. Brush said that the so-called service-at-cost scheme as applied in Cleveland, Dallas and elsewhere, if properly developed and drawn would work for the Boston Company. The plan is devised to create a co-operative relationship between the public and the company. It provides for a sliding scale of rates and a fair return upon money invested. "By a fair return," he said, "I mean one that will invite capital." The policy of the company is opposed to vesting the management in a group of four or five trustees, but believes that the service-at-cost plan will eventually restore public confidence in the company.



The Massachusetts Public Service Commission, it must not be forgotten, has come into a lot of criticism in its day. It has been charged with dereliction in office and certain critics have classed as foolishness the presentation of a possibility of savings in operation in the Boston Elevated system of $1,200,000 per annum. It is held that such a saving of 6% of the gross earnings of about $20,000,000 could be easily made by anyone if the authority demanded by the commission were granted. A clear case for the public to understand is that to effect such a gain it would be necessary to expend about $4,000,000 in new construction, reorganize routings and methods, increase transfer points compelling a large number of additional transfers and the cutting down of through cars to the center of the city, and, finally, the removal of hundreds of white poles (stopping places) causing much additional walking by the present riding community.

The legislative committees having the new legislation in charge have not yet reported. It will probably be a matter of several weeks before a definite reply is formulated. The service-at-cost plan, according to the best opinion is favored by the majority. The provision granting a return of 5% on the stock for two years and 5½% thereafter seems to have a considerable following as this will protect the holdings of nearly $12,000,000 bonds of the Boston Elevated now owned by Massachusetts Savings Banks, as unless at least 5% is paid upon this stock the bonds do not remain legal investments in that State. The differences of opinion are mainly upon the valuation to be placed upon the system. One extreme believes every dollar put into the system should be considered while the other would cut it to the present low and abnormal value of the property.

From the tangle, therefore, we see emerging a definite bill, providing no such delays as arose, and are arising, in Philadelphia, prevent a speedy era of reconstruction of the Boston Elevated and Subway systems. Holders of securities of this company should find comfort in the fact that the best minds are concentrated on the solution of the problem and that where there is so much smoke there must be some fire.

The news of the day should be watched carefully. A spirit of co-operation from legislatures, commissions and even the courts has shown itself among certain rulings which have reached the financial districts. It would probably not be far amiss to hope that a favorable solution of these problems may soon advance the quotations of Boston Elevated.

Bargain Indicator of Public Utilities

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand up well in this table because its price is low compared with latest available earnings.

	Present Div. Rate	Dividend Yield on Recent Price	Dollars Earned Per Share						Recent Price	Earnings Last Fisc. Year on Recent Price	INTENDING PURCHASERS should read all notes carefully and consult "Investment Digest." We gladly answer all inquiries of yearly subscribers.
			1912	1913	1914	1915	1916	1917			
Am. Pub. Util., com.	$0	0.00%	.....	7.41	4.81	3.83	5.35	7.18	22½	31.91%	High tension line beneficial.
Northern States Power, com.	7	14.89	.....	3.03	7.32	12.91	16.88	14.99*	47	31.89	Favorable as hydro-elec. Large gross.
Cities Service, com.	6	2.95	9.29	10.71	11.28	15.27	36.74	60.73	203	29.91	Maintaining record earnings.
United Light & Ry., com.	4	13.33	.....	4.30	3.48	2.33	4.41	8.48*	30	28.26	Dividend uncertain though earnings increase.
Phila. Co., com.	3	12.50	6.50	5.32	4.72	4.20	4.95	6.04	24	25.16	Earnings improving. Approaching crisis.
Comm. Pr. Ry. & Lt., com.	0	0.00	6.74	7.44	8.28	7.42	8.79	5.77*	23	25.08	Money stringency. Company nursing resources.
Pac. Tel. & Tel., com.	0	0.00	0.63	1.87	1.89	0.56	1.25	5.25*	22	23.86	Calling its bonds. Earnings increase.
So. Cal. Edison, com.	7	8.64	5.24	5.80	6.46	7.02	7.96	18.80*	81	23.20	Improvement in earnings.
Ohio Cities Gas	5	13.15	.....	.....	.....	1.92	2.30	8.70	38	22.89	War taxes hurt. Heavily capitalized.
Rep. Ry. & Lt., com.	4	17.39	.....	.....	1.95	2.97	3.55	5.18*	23	22.52	Needs an increased rate.
Am. W. W. & El., 1st pfd.	7	11.86	.....	.....	.....	9.57	10.18	12.96	59	21.96	Good management and West Penn. helps.
Pacific Gas & El., com.	0	0.00	—1.17	2.82	7.79	9.91	9.10	6.83*	33½	20.38	High oil prices hurt.
Columbia Gas & Electric	4	12.50	.....	0.25	0.59	0.60	2.31	5.87*	32	18.34	1917 earnings improve. Gasoline helps.
Detroit United Railway	8	9.41	11.60	12.24	10.41	9.69	16.65	14.50*	85	17.05	Gov't price regulation should benefit.
Brooklyn Rapid Transit	6	14.63	8.28	9.17	7.14	7.40	7.54	6.97	41	17.00	Dividend earned, but note obligation not settled.
Am. Power & Light, com.	4	9.09	.....	6.01	4.83	4.21	6.50	6.60*	44	15.00	Earnings hold steady.
Twin City R. T., com.	4	8.00	7.45	7.65	8.05	6.83	9.22	6.54*	50	13.08	Strike settled. Minneapolis franchise not yet renewed.
Western Union Telegraph	†6	6.48	4.01	3.24	5.38	10.19	12.42	11.74	92½	12.69	War taxes hurting war prosperity.
Montana Power, com.	5	7.40	.....	3.13	2.42	3.72	4.87	8.39*	67½	12.42	Expanding business. Record earnings.
Mass. Gas, com.	7	.....	4.34	5.21	5.15	5.13	5.53	8.99	78	11.52	Earnings decreasing.
Am. Lt. & Trac., com.	10	4.93	26.05	25.08	22.32	24.62	25.66	20.75	202½	10.24	Earnings decrease. Benefited by coal price reductions.
Laclede Gas Lt., com.	7	8.23	8.40	8.16	8.20	9.24	11.21	8.58*	85	10.09	Dividends in no immediate danger.
Consol. Gas Balt., com.	8	8.33	7.28	10.11	7.00	7.55	8.39	10.56	96	10.00	Earnings good.
Detroit Edison	8	7.76	7.83	8.34	10.52	13.68	13.72	10.26	103	9.96	Decreased earnings. Peace will help.
Am. Tel. & Tel.	8	7.92	9.58	9.55	9.38	9.09	9.61	9.65*	101	9.55	Dividends not yet endangered.
Hav. El. Ry., Lt. & P., com.	6	6.25	.....	5.72	5.44	8.26	10.18	9.12	96	9.50	Holding its own.
Kings Co. El. L. & P.	8	8.55	9.52	9.29	10.86	11.67	11.88	8.66*	93½	9.26	Increased expenses hurt.
Cons. Gas of N. Y.	7	8.13	8.91	8.50	8.40	8.82	8.94	7.75	86	9.01	High operating costs.
Mackay Co., com.	6	8.00	5.09	5.25	5.28	5.36	6.35	5.87	75	7.82	Wireless telegraphy competition. Earnings drop.
Third Av. Ry., com.	0	0.00	.....	5.53	3.64	4.03	5.77	0.00	16	0.00	Defaulted adjustment bonds; no surplus.
NO 1917 ESTIMATES AVAILABLE.											
North Amer. Co.	5	10.52	7.15	7.01	6.41	6.06	7.26	.....	47½	.....	Interested Un. Rys. of St. Louis.
Peoples Gas Lt. & Coke	0	0.00	7.54	8.25	8.55	8.39	5.39	.....	40½	.....	Officials optimistic. Improvement expenditures large.
Pub. Ser. Corp., N. J.	8	7.76	8.21	8.99	6.50	7.89	10.18	.....	103	.....	Heavy expenses hurt.
Standard Gas & El., pfd.	3	12.50	7.39	3.19	2.63	3.15	3.60	.....	24	.....	1917 showing creditable.

*Estimated. †1% Extra January, 1918.

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS, to purchase or sell.

AMERICAN GAS—Gross was $5,287,706 in 1917, as against $4,491,817 in 1916; net was $2,052,209; total income was $2,316,833; balance was $438,648, equal to 5.6% earned on $7,804,000 capital stock, compared with 10.1% on $6,449,200 in 1916 and with 11.8% in 1915. The 1917 dividends are charged against the accumulated surplus, $937,952 being brought forward from 1916. This left a balance of $851,595. To this account is added $139,034 insurance reserve and $187,917 contingent reserve, making total surplus Dec. 31, 1917, of $1,178,548.

AMERICAN PUBLIC UTILITIES—Declares Scrip Dividend—Company declared the usual quarterly dividend of 1½% on its preferred stock, payable in scrip on April 1 to holders of record March 20. The scrip will be in the form of warrants payable on or before April 1, 1923, bearing 6% interest, payable semi-annually at the office of the company in Grand Rapids, Mich. The directors of the company deemed it prudent in view of the uncertain financial conditions now prevalent and which may continue during the war to make payment of the dividends in scrip instead of cash in order to reserve the resources of the company and its subsidiaries.

AMERICAN RAILWAYS—Gross income for 1917, $1,568,718, as against $1,538,269 in 1916. Net income, $694,588.

BROOKLYN RAPID TRANSIT—Action on Dividend Postponed—Board of Directors on February 28 postponed action on the quarterly dividend, regularly payable April 1, until pending negotiations regarding refunding of the company's $57,735,000 secured gold notes, due July 1, are settled.

COLORADO POWER—Sells Preferred Stock—Company has sold to Bonbright & Co., $250,000 7% cumulative preferred stock. The proceeds from the sale will be used to pay for additions and extensions already constructed and for the erection of a modern steam station on the Co.'s Sterling property. Installation of electric furnaces for smelting tungsten, manganese and chrome ores in its territory and new developments in the mining and reduction of ores containing molybdenum, in which electric power is extensively used, has made increasing demands for current.

COLUMBIA GAS & ELECTRIC—Production—Gasoline production to March 15 reached 16,790,835 gallons. To March 8 production since January 1 amounted to 2,728,567 gallons, compared with 2,232,436 gallons in the corresponding period of last year. The gasoline plants have reached a daily capacity of about 50,000 gallons.

INTERBOROUGH RAPID TRANSIT—Asks 6-Cent Fare—Theodore P. Shonts, president of the company, appealed to State Senator George Thompson, who investigated the Public Service Commission some time ago, to introduce a bill increasing street car fares to 6c. for the period of the war and one year following. Senator Thompson, it is said, will introduce the measure.

NORTH AMERICAN CO.—Earnings Decrease—The 1917 report shows a perceptible falling off in gross and net income, while the surplus for the year was less than half that for 1916. The gross income fell from $2,304,329 to $2,099,294; the net income from $2,161,918 to $1,803,568 and the profit and loss surplus was $313,903, against $672,253 for 1916. The poorer showing of the company was attributed to the scarcity of labor, higher wages, the high prices of materials and the impossibility of undertaking any permanent new financing, except at higher rates than the business returns justified.

OKLAHOMA GAS & ELECTRIC—New Business—The Co. and local dealers added to the Co.'s lines 252 electrical appliances, including 90 vacuum cleaners, 63 flat irons, 18 washing machine motors and 7 sewing machines in February. Orders were taken for wiring houses. During the month there was an increase of $100,000 in the value of buildings for which permits were issued over the corresponding month last year. Permits have been issued for $709,000 since January 1.

PHILADELPHIA RAPID TRANSIT—Court to Determine Taxes—It is regarded as probable that final determination of the responsibility for payment of income and surplus profits taxes, as between the Co. and its subsidiaries, will be a court decision, brought about by a friendly suit. The legal questions involved are such as to make this the likely outcome. They were known about when the transit agreement was framed, and have all along been recognized as a problem that would have to be taken care of later. So far the Co. has made known its position to the underlying companies, and in many instances will contend that the taxes have to come out of the rentals paid them.

WESTERN POWER CO. OF CANADA, LTD.—January Earnings—Gross earnings, $32,899, a decrease of 7.5%, compared with the corresponding period of last year. Net $20,950, a decrease of 20%. For the 12 months ended Jan. 31, 1918, gross were $447,465, an increase of 17.3%, and net $326,406, an increase of 23%. The sharp decline in gross and net for the month of January last is a direct result of the severe ice storm in December.

MINING AND OIL

Low Priced Mining Stocks of Merit

Tonopah Extension

Discussion of the Tonopah Leaders—The Silver Situation—Fascinating Possibilities

By VICTOR DE VILLIERS

HE who intends buying or holding silver securities has something to gain by knowing the rudiments of silver. Any discussion to do the subject even scant justice would require the entire space of this article. We can merely outline the salient features, and suggest that further study be pursued along the same lines.

The average price of silver for 25 years was nominally 60 cents an ounce, but this average includes an artificial period of $1.29 an ounce due to a "free coinage" period of high prices. A truer index is probably the 14 year era between 1903 and 1916, when the average was 57.52 cents an ounce. Discarding the abnormal, the high point was 64.85 in December, 1905, and the low 46.25 in August, 1915, the latter being a low record.

The Rise of Silver

Not until the war had been under way for 18 months did silver commence to reflect the steady, insistent demand. From a firm starting point of 56.77 in January, 1916, the price rose to 74.27 in May of that year; the highest price since 1893. A temporary reaction was followed by sustained, frenzied buying by our Government, the Entente Allies, China and India. Dealers and speculators undoubtedly took a hand in what was destined to be the greatest silver-buying movement in history. The efforts of London to check prices and keep its grip on silver supremacy were sporadic and futile. Not even the English ukase which went against exportation of the metal to India, could stop its upward flight or stem the tide of legitimate demand.

The November, 1916, quotation of 71.60 was left far behind, and "dollar silver" was reached and crossed by the fall of 1917, the official quotation of $1.07 in September, 1917, being the high record for the preceding 14 years. From last September to March 31, 1918, the price has been steady between 85 and 90 cents, and the trend seems now strongly upward. Reports from Washington of price-fixing plans are insistent that dollar silver is at our doors.

An international monetary readjustment of a *metallic* sort may take the place of the mountains of illustrated engraved paper now representing the expanding credit of the world, particularly in Austria, Hungary, Russia and Germany. Slimly-margined paper with a gilt, rather than a gold backing, may be good war-financing, but unsuited to permanent credit requirements.

Silver and gold have been accepted by the world from time immemorial, as seasoned vehicles of value. With gold production stationary, it is logical to suppose that silver, its running mate, may be seriously considered when the time comes to justify and redeem national credit. If this should happen, it is likely that the 1903-1918 silver average of 57.52 cents would become historical for many years, and that the pendulum would swing between 75 cents and $1 during the next decade, at least.

The Role of the Tonopahs

Turning to the possibilities of our silver producers, we note that the silver belt of the American Continent consisting of Canada, the United States and Mexico, is well qualified to gird the loins of international finance. Mexico will have to stand aside for a while. She has her own troubles, and will need her silver to patch up the scars of many years of violence. With Canada and the United States presumably furnishing the major portion, Tonopah's seven to eight

million ounces annually will contribute about 10% of Uncle Sam's quota. It has already produced over $70,000,000. For this contribution, Nevada will in turn look to its five principal Tonopah producers, namely, Tonopah Mining, Tonopah Belmont, Jim Butler and its quarrelsome apex-neighbor West End, and finally, Tonopah Extension, which brings us to a consideration of the latter.

Tonopah Extension

The investor who bought Tonopah Extension around 5 must have suffered mental anguish during the past few months at the stupid market action of the Tonopahs in general, and "Tony-Ex" in particular. A low price of 13/16 was recorded in 1917, on top of the passing of the dividend, reports of low-grade ore, diminishing profits and general discouragement. This cents-per-share quotation compares painfully with 7¼ and 4¾, the high prices of 1916 and 1917. The silver oracles were blamed, but no fault attaches to them. No boom was more timely or more deserved than a silver boom. No company enjoys a stronger backing, or better good faith behind it, than the unfortunate Tony-Ex.

The investor may well inquire, "Why doesn't it go up?"

It must be conceded that the stock has rallied about 100% in short order from its low, and is now steady at around 1½. Generally unfavorable conditions, a bear market and frightened liquidation came at an unfortunate time for shareholders. The wind-up was an extremely unfavorable report. Looking back at the gloomy last quarter of 1917, it would seem that at under a dollar, the shares were unwarrantably depressed to hysterical levels which are unlikely to be reached again in anything but a panic.

What are the prospects at 1½?

History and Organization

The company was incorporated in 1902 with a capital of $1,000,000 in common stock of $1 par each, increased in 1915 to $2,000,000. The last increase was to provide 156,294 shares to acquire the Tonopah Merger and Tonopah Victor companies, providing expansion and disposing of probable future apex litigation. About 1,282,801 shares are outstanding, so that in the absence of funded debt or preferred shares, the market appraisement is about $3,000,000 for the whole enterprise at this date.

It owns, in addition to its Victor and Merger holdings, its original properties of the Red Rock, and Pittsburg Tonopah companies, and the Sully claims bought in 1916. The total consists of 628 acres in the Tonopah district, adjoining Tonopah Mining Company on the west, and West End Consolidated on the north; these holdings embrace a very substantial part of a famous two-mile mineralized zone in a rich district. The company also controls the West Tonopah Company, sidelining its property on the extreme west.

The property, which has an extreme length of between seven and eight thousand feet, contains a number of rich and medium grade ore-veins reached by its Eastern and Western workings. Values have ranged from $50 to $200 a ton, while its Murray lode has averaged $26 over a proven length of 240 feet.

The majority of production has been developed through three main shafts, and the ore mined from three large and five smaller veins and "stringers." It would seem that the possibilities of No. 1 shaft and the five smaller veins are now very limited. Interest of the shareholders will be centered in developments surrounding the Merger, O. K. and Murray veins through the No. 2 and Victor shafts together with new discoveries on the properties, and the outcome of the company's control of West Tonopah.

It may be stated that apart from its West Tonopah holdings, and a working arrangement for mine ventilation with other smaller producers, the company does not maintain an "exploration department" and does not contemplate doing so. Its policy is to conserve its earnings, and use its $1,000,000 equipment, on the spot without going afield as Tonopah Mining did. The management considers its own unexplored territory sufficiently promising to explore it with all energy and resources to the limit.

Great interest is contered in the Western workings of the property where the new vein, known as the Murray lode, was encountered within the last three years, and later cut on successive levels down to the deepest workings. Opened to a depth of 1,540 feet from the surface, the Murray lode

is probably one of the great ore channels of the Tonopah camp.

The ore veins of the district contain shoots or lenses of commercial ore, occurring at intervals in the course of any major vein. The intermediate sections are usually barren. The great Murray lode, which can be followed for a thousand feet, is broken up by such barren patches, but its enriched area extends over several hundred feet. Coursing from east to west, this lode "pitches" towards the West Tonopah property, controlled by the company. The limits of its length are not defined, but connecting workings on both properties have revealed strong probabilities of absolute continuity, subject to the usual lean patches. The unexplored territory of the company embraces well over two-thirds of the estate, and it is not unlikely that the Murray vein will continue to yield commercial ore of good value, when the time comes for further exploration.

SILVER PRODUCERS U. S. A. AND CANADA.

	Oz. 1915	Oz. 1916
American Smelting	76,117,453	71,868,451
Anaconda	9,005,618	11,837,769
U. S. Smelting	12,071,863	11,647,205
International Smelting	5,090,157	5,549,777
Butte & Superior	3,895,090	3,850,021
Nipissing	4,623,958	3,819,769
Tonopah Belmont	2,968,565	2,629,466
Kerr Lake	2,036,962	2,433,793
Consolidated of Canada	2,230,500	2,285,631
Tonopah Mining	2,340,000	1,882,402
Coniagas	2,002,054	1,773,287
Bunker Hill & Sullivan	1,300,000	1,406,260
Tonopah Extension	2,106,519	1,387,557
Calumet & Arizona	1,381,078	1,267,735
Temiskaming	278,961	1,263,848
Nevada Wonder	1,199,246	1,243,753
Hecla	692,444	1,195,841
La Rose	1,368,247	1,135,143
North Butte	944,285	960,247
McKinley	1,112,976	925,779
Copper Queen	757,543	816,828
Buffalo	822,791	684,274

The company was one of the first big producers of the district, and ranked second only to the Tonopah Mining Company, at a time when the rich ore veins of the eastern part of the property adjoining Tonopah Mining were drawn on.

It may be remarked parenthetically that the high-grade yielded a net profit of over $1,000,000 prior to 1906. Thereafter, earnings dropped from $859,000 in 1906 to $225,000 in 1907 and $119,000 in 1908.

It became evident to the management, however, that too much attention was being devoted to the limited supply of rich ores, and with the employment of one of the ablest engineers procurable, a broader campaign for the development of the much larger tonnages of medium-grade ore was launched. With the installation of a milling plant and up-to-date electrically driven machinery, a fine record of production and dividends followed.

Earnings and Dividends

Dealing with the less sensational period of 1914 to 1917 of the corporate history, net profits for each fiscal year were: 1914, $456,712; 1915, $596,892; 1916, $584,421; 1917, $673,394. The company never pursued a hard and fast dividend policy, but treated its shareholders with generosity, allowing them to share in any prosperity to a liberal extent, as the following dividend record shows: 15% in 1905, 15% in 1908, 5% in 1916 and 15% in 1917. The dividend was finally passed July, 1917, after the company had paid out a total of $1,877,552 approximating 150% on outstanding capitalization, in twelve years.

The earnings for the last fiscal year were equivalent to 52 cents a share on 1,282,801 shares, compared with the 1916 showing of 45 cents on 1,272,801 shares outstanding. Total net income was $673,-394 (after allowing over $1,000,000 for expenses, taxes and depreciation). Production was 1,882,402 ounces of silver and 18,052 ounces of gold.

As the dividend disbursement for the 1916-1917 fiscal year totalled $702,492, a sum of $29,098 was taken from the 1916 surplus of $839,612, reducing the 1917 surplus to $810,512. Current liquid assets were about $646,000 (about $320,000 in cash and bullion), and current liabilities $246,000, leaving around $400,000 in excess.

The "book-value" of the shares, as computed from the balance sheet, amounting to $1.75 a share seems conservative enough. The financial position is satisfactory in view of liquid nature of assets, healthy

cash position, and low valuation of $1,692,-766 for the entire property.

What of the Future?

The annual report is due shortly and will contain technical and other data which we need not trouble the reader with. As we understand, the company is now earning a profit of from $15,000 to $20,000 monthly.

It may be disappointing to see a shrinkage from an average of around $550,000 a year to under $300,000, but the careful investor in mining stocks expects disappointments, as well as pleasant surprises. *We predict that the annual report will be encouraging from every angle, showing aggressive development and relative progress on a larger scale than hitherto.* The company appears to be preparing itself for a period of real mining, rather than the hazardous game of rapid profit-snatching; although it must be admitted that the temptingly rich ore bodies of the past invited "going, while the going was good."

In view of the unfortunate intrusion of "leached zones" as compared with the former zones of enrichment, which shareholders were lucky enough to have to deal with in the past, earnings will have to be carefully nursed and something put by for the rainy days of the future. It will require a large sum to develop the West Tonopah property adequately, and prospective dividends might well be diverted into this channel.

Against all this, the shares are selling at 1½, or about $3,000,000 for the property. Many a raw prospect is selling for more, and it is not surprising that stockholders are disgruntled at the spectacle of their promising property covering hundreds of proven acres, fully equipped, constituting a model mine, selling for a mere song.

Shareholders may derive encouragement from the present earnest efforts of the Schwab management.

The property is indeed controlled by the famous steel-master. Mr. Schwab and associates are reported to be the largest shareholders. Their holdings are intact. They were not frightened out by recent liquidation, and hold their shares for further dividends, not market profits. The president is Dr. M. R. Ward, brother-in-law of Mr. Schwab, a gentleman of the old school. The general manager is Mr. John G. Kirchen, who was specially selected by Mr. Schwab for his knowledge of the Tonopah geology and mining. One of the greatest assets of a mining company is the competency of its engineer in charge. The management is noted for candor, and its readiness to keep stockholders fully informed of all developments, good or bad, where publication is not prejudicial to the interests of all.

There is a substantial silver lining to the Tonopah Extension cloud. The property contains many zones of enrichment which may be encountered at any time. Recent developments indicate that success is reasonably assured. The management is fairly confident that it only requires time and patience to develop further large and rich ore-bearing veins.

Conclusion

In view of the scarcity of meritorious silver issues, the powerful interests behind this company, and the better technical position created by the severe liquidation of the last year, the shares should command the interest of the speculative investor in legitimate mining securities. Importance attaches to the large unexplored area of the company, and its ability to exploit possibilities to the utmost in the capable, careful manner that is familiar to its shareholders.

Holders should not be influenced by the 1917 pessimism, but should average their holdings, if purchases were made considerably higher up. They may depend upon the Schwab-Ward-Kirchen management for a square deal. The shares ought to participate prominently in any speculative move in the silvers.

Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

BIG LEDGE—Operations at Henrietta Mine—In its weekly report to stockholders the company said that in the Henrietta mine, the north drift on the 300-ft. level is in 143 ft. with ore 5 ft. wide and averaging $30 per ton. The south drift is in 110 ft., with ore 2½ ft. wide averaging $32. On the Invincible vein on the same level the south drift is 56 ft., with 2-ft. ore of $25 per ton. Work is continuing on the Butternut mine, but no assays are as yet available.

CALEDONIA—Surplus of $730,962—The operations in 1917 showed low operating expense as compared with the large profits. On Dec. 31, the company had a cash surplus of $730,962, of which $427,345 was cash in banks, $175,000 in Liberty bonds, and $124,568 due from smelters. The company produced 17,982 dry tons, yielding 9,434,900 lb. of lead, for which was received $826,297; 1,068,699 oz. of silver, $873,036; and 544,801 lb. of copper, $149,920. Gross was $1,849,254, which, with smeltery deductions, $484,988, leaves the net value $1,364,266. The total mining, milling and shipping costs amounted to $137,110, as follows: Mining 38,557 tons at $2.95 per ton, $113,653; milling 27,122 tons at $.072 per ton, $19,451; shipping 19,625 tons at 0.20 per ton, $4,006. Net profit, $1,227,155. Dividends paid $937,800. Total dividends to date, $2,901,606. Net profit during the last quarter, $212,322. The company is paying dividends of 3c. per share per month, or $78,150, considerably in excess of the present earnings. "Just how soon this rate will have to be discontinued, your directors are unable to say."

CONSOLIDATION COAL—Increases Capital Stock; Declares Stock Dividend—Directors on March 20, declared a stock dividend of 14 per cent, payable to stockholders of record March 30. An increase in the authorized capital stock from $45,000,000 to $50,000,000 was unanimously authorized. At the January meeting a 5 per cent cash dividend was declared.

ENGELS—Production and Operation in 1917—Production in 1917 showed 38% increase over 1916. Mines in Plumas County produced 6,166,487 lbs. of copper. Gross earnings, $1,307,123, profit, $317,458, or 18% on 1,840,000 shares outstanding of an authorized issue of 2,000,000 shares. The outstanding stock was increased during the year. Expenditures were: New mill, tramway, air compressors, machine shop, $552,240; completion of Indian Valley R.R., $179,000; total, $731,240. These improvements are complete and will enable the company to approximately double the production in 1918. Dividends paid in 1917, $295,253.

GOLDFIELD CONSOLIDATED—Earned $196,634 Net in 1917—Earned $196,634 net in 1917 from the milling of 250,550 tons of $8.14 ore of a gross assay value of $2,039,477. Compared with $452,734 net from 338,680 tons of $7.82 ore in 1916.

No dividends were disbursed on the 3,559,148 shares of stock outstanding. At the commencement of the year the cash was $1,021,086. At the close of the year it had decreased to $170,571 owing to investment in outside securities.

HOMESTAKE—Net, $1,195,383 in 1917—Report for 1917 showed net of $1,195,383 after all charges, including $563,600 reserve for depreciation and $843,930 for depletion, as compared with $1,823,528 for 1916. In 1916 no deduction was made for depletion. Dividends paid in 1917 totaled $1,959,048, against $2,210,208 in 1916. After dividends there was a deficit of $763,665.

INSPIRATION CONSOLIDATED—Again Running at Capacity—Quarterly dividend of $2 a share is payable April 29 to stock of record April 12.

Company's decision to continue the $2 quarterly dividend regardless of a big falling off in production last year indicates that production returns for the rest of 1918 should be highly satisfactory, now that the property is being operated at capacity. In the first half of 1917 production ran at high levels, especially in May, when the record output of 11,900,000 pounds was produced. Labor troubles, which started last July, resulted in the mines being shut down for two solid months. Operations were resumed in September but the Co. found it a difficult task to get back to normal operations on account of the scarcity of miners.

With no interruption to operations, Inspiration stands a good chance of showing a mine output approximating 118,000,000 pounds this year, compared with 80,150,000 pounds in 1917 and 120,793,885 pounds in 1916.

Co. is not only running at 100% capacity, but is also treating more than 17,000 tons a day, the best record ever made in the history of the company.

IRON BLOSSOM—1917 Showing—Total receipts of $830,940, inclusive of $526,909, from ores sold and $67,853 lessee ore sales.

Disbursements including all expenses, taxes and lessees totaled $412,860; dividends, $250,000; balance on hand Nov. 30, 1917, $148,995.

The silicious ore mined aggregated 10,458 tons, which carried 1,406 ounces gold and 239,246 ounces silver, and netted $90,266 or $8.63 a ton.

Copper ore mined, 7,010 tons, yielding 166 ounces gold, 142,358 ounces silver and 5,491 pounds lead, and netted $119,877 or $17.08 a ton.

Lead ore, 4,446 tons, carrying 422 ounces gold, 104,535 ounces silver, 12,210 pounds zinc

and 619,056 pounds lead, and brought net $81,-775, or $18.30 a ton.

The mill ores brought $73,410 net, or $5.22 a ton.

With the object of getting through the silicious beds of lime on the 1,900-foot level, and developing a more soluble lime more susceptible to minerals, Co. has begun sinking No. 1 shaft to a depth of 2,200 feet.

A large part of the mine is now being worked under a leasing system, on a basis of 20% up to $10 ore; 25% on $10 to $15 ore, and up to 50% on $30 ore and upwards.

LA ROSE—Makes Good Strike—An engineer who examined the strike on the 410-ft. level of the Violet property of Co. reports the vein has a substantial width, with values running 4,000 ozs. to the ton. It is not proven this vein is the extension of the O'Brien's main vein, but if not, the management is said to believe it will reach this extension within a short time.

MAYFLOWER-OLD COLONY—1917 Report—The directors of the Mayflower-Old Colony Copper Co. make the following report of the operations to Dec. 31, 1917:

Balance on hand May 1, 1917, cash and accounts receivable, $102,114; received from interest, $1,481; total, $103,596; payments, $71,-293; balance Jan. 1, 1918, $32,302.

MIAMI—Dividend Reduced—Co. declared a quarterly dividend $1 a share payable May 15 to holders of record May 1. Three months ago $1.50 a share was declared.

The dividend was reduced because of the cost of mining, the excess profits and income taxes and to conserve working capital and resources.

The cut to $1 per share came as a surprise, as there had been no indication from any quarter previous to the meeting that such action would be taken. The fact that the directors decided to conserve resources is looked upon in quarters close to the management as conservative.

For several quarters the Co. had been paying an extra of $1 per share in addition to the quarterly distribution of $1.50, but six months ago the extra was omitted.

MICHIGAN UTAH—Report—Covering 1915, 1916 and 1917, showed $29,200 received from ore sale in 1915; $185,087 in 1916, and $240,789 in 1917.

In 1917, $22,843 was paid on indebtedness, $12,144 on company payrolls, $184,557 to leasers, leaving $4,269 cash on hand Dec. 31, 1917.

The values in the 1917 ores were 227 ounces gold, 148,317 ounces silver, 384,906 pounds of copper and 1,865,389 pounds of lead.

The Co. has reduced indebtedness to $17,-400, two leasing operations are under way, one in the east end of the property; the other in the Cleves tunnel and Gulf City Rocks section.

The company is operating from the Copper Price tunnel, which is in more than 2,000 feet.

NIXON-NEVADA — Developments — Co. has sunk the winze that is being put down on vein 1 at the 300-ft. level, 15 feet and it still shows the streak of high grade 50% copper. No attempt is being made to follow this ore body and the management is seeking to reach the permanent water level.

SILVER FISSURE SILVER—Stock Offering—Seligman & Meyer are offering for sale 300,000 shares of this Co., which owns five patented and two unpatented claims at Polaris, Montana. Proceeds will be used to acquire title to property and erect a plant for treating ores.

The mine was opened in the early eighties and worked down to the 200-foot level. The present Co. took over the property in 1900. Scattered development work was done, but abandoned in 1908 after $250,000 had been spent. Silver was then 50 cents an ounce.

Possible and probable ore reserves are said to total 1,507,300 ounces of silver and and 27,247 gold. Some engineers estimate a net profit of $180,000 a year, with a 50-ton plant, 80 cents an ounce for silver and 85% recovery, and $350,000 yearly with a 100-ton plant.

The Co. has 1,000,000 shares capital stock, $1 par, of which 400,000 are in the treasury.

SILVER KING—1917 Report Showed—Receipts of $1,088,795, including $235,457 on hand Feb. 1, 1917; $642,466 ore sales; $6,165 interest; $200,000 bills payable and $4,705 miscellaneous.

The disbursements include expenses accounts, $40,419; mine development, $96,664; tramway, $12,656; tunnel work, $78,228; mill operations, $34,702; supervision, $6,600; surface improvements, $14,957; property purchased, $178,950; dividends, $383,287, and cash, $239,086.

Ore tonnage and mill concentrates for 11 months amounted to 10,082 tons from which came 451,627 ounces of silver, 5,016,627 pounds of lead, 403 ounces of gold and 248,771 pounds of copper.

Net smelter returns were $642,467. The mill plant recovered $120,593 from second-class ores, averaging $96.75 a ton.

TENNESSEE COPPER & CHEMICAL—Declares Initial Dividend—Co. declared a dividend of $1 a share, payable May 15 to holders of record April 30. This is the first dividend since the final readjustment of the old Tennessee Copper Co.

Earnings of the company in 1917 are estimated at $3 a share on the 400,000 shares outstanding. The annual statement, which has been delayed because of the difficulties in connection with the Federal taxes while waiting for rulings of Treasury Department, will probably be ready in about three weeks.

Acid and copper output increased, International Agricultural takes its entire acid output.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

CALIFORNIA OIL—Permitted to Issue Notes—Company has been permitted by Commissioner of Corporations to issue to the B. B. and R. E. Dudley Petroleum Co. $500,000 of its gold notes in payment of an interim note issued several months ago. It is provided that the notes shall be deposited with a trustee to be sold at 90 and accrued interest, one-third of the purchase price to be paid to the Dudley Co. and the balance to be invested for it in the preferred stock of the California Oil Co. at 90 cents a share. The proceeds from the sale of preferred shares are to be used for the development of oil properties as authorized by the Commissioner. It is stipulated that no dividends shall be paid by the California Co. while the notes are outstanding, except with the consent of the Commissioner.

GALENA SIGNAL—Stock Increase Meeting—Directors have called a special meeting to be held on May 21, 1918, to vote on an increase in the common stock from $12,000,000 to $20,000,000, and to create a new class of preferred stock, to the amount of $8,000,000, par value $100 each. If the proposed increase in common stock and the proposed creation of a new preferred stock is voted, the board of directors has under consideration the issuing of $2,000,000 new preferred stock and $4,000,000 of the increased common stock, in part payment for the capital stock of a Texas corporation owning producing properties, tank arm, tankage, pipe line and other facilities, and also in part payment for one-half of the capital stock of the Petrol-Refining Co., a Delaware corporation, of which the Galena company already owns one-half. If the vote at this special meeting shall be in favor of the proposed increase, the board of doctors has further under consideration the offering of $4,000,000 of the new preferred stock for subscription to all stockholders pro rata at par. It is the intention of the board that the remaining $4,000,000 of new common stock and $2,000,000 of preferred stock shall remain in the treasury unissued. The stockholders will also vote on the question of changing the name of the company from Galena Signal Oil Co. to the Galenea Oil Co.

GLENROCK—Three Wells Drilled—Company drilled three wells in Pilot Butte recently and has 19 producing wells in that field with five deep wells now drilling in the Big Muddy. It seems regrettable that market support should be lacking to the extent that the shares of this promising Wyoming producer seem unable to find a better level.

GLOBE OIL—Statement—History—Property—Incorporated July 24, 1917, in Delaware, acquired five properties in Oklahoma. Total acres amounting to 577½ acres, 51 wells, yielding 750 bls. a day. The profit and loss statement, March 1, 1918 shows profits, 4 months, $63,826. The general balance sheet shows a surplus of $239,535. Capital stock is authorized, $3,000,000; outstanding, March 1, 1918, $911,966. (Shares $1.) Dividends of 1½ p. c. each are paid on the 10th of each month, at Kansas City, Mo. There was outstanding on March 1, 1918, a $975,000 mortgage on company's oil leases. The officers are: J. R. Sutberlin, Pres., Kansas City, Mo.; S. S. Tarren, Vice-Pres., Mivier, Ill.; Calvin O. Smith, Sec. & Treas.; E. M. Adams, Aud., Tulsa, Okla.

PAN-AMERICAN PETROLEUM—Bond Offering—Wm. Salomon & Co., New York, Chicago and San Francisco are offering $6,650,000 first lien marine equipment 6% convertible gold bonds of the company, which controls Mexican Petroleum. These mature $350,000 semi-annually from July 1, 1918 to July 1, 1927, inclusive, and are convertible into common stock of this company at 1.02% or at the rate of $1,200 par value bonds for $1,000 par value common stock. Offered at prices according to maturity, to yield 7%.

SINCLAIR OIL—Plants Running At Capacity—According to interests conversant with Sinclair Oil & Refining Company's affairs, a change in the dividend rate has not been discussed. Directors meet for dividend action around April 15. Sinclair is reported doing the biggest business in its career. The plants are running at capacity and handling about 30,000 barrels of oil daily as reported. About 20,000 barrels are being run daily through the 800-mile pipe line to Chicago and substantial deliveries are being made to Standard of Indiana on account of the 2,000,000 barrels of crude recently sold to Sinclair's next door neighbor on the Lake front. As one Sinclair interest puts it, "We have plenty of production, plenty of oil, our refineries are working at capacity, and we see nothing to worry about."

STANDARD OF KANSAS—Earned $71.14 a Share—Has issued its statement for year ended Dec. 31, 1917, showing net earnings of $1,422,982, equal to $71.14 a share on $2,000,000 capital stock, against $1,270,314 net earnings for 1916, equal to $63,51 a share. Dividends paid in 1917 totaled $380,000. an increase of $160,000.

STANDARD OF LOUISIANA—Advance Price of Oil—Standard of Louisiana advanced its market prices on all grades of Louisiana crude oil 25 cents a barrel.

UNLISTED SECURITIES

United Profit Sharing Shows Improvement

Its Rise and Decline—Unexpected Dividends—Company's Difficulties—Outlook During War Period

By F. L. FONTAINE

IT was just about four years ago when the shares of the United Profit Sharing Corporation were skyrocketing on the New York Curb. George Whelan had made such a tremendous success of the United Cigar Stores that when he and other United Cigar Stores interests organized the United Profit Sharing Co. and stated its purposes, the financial community immediately came to the conclusion that this new company was going to be a second bonanza. The curb got highly excited over it, saw huge profits in its future, and curb houses were not a bit bashful in sending broadcast the most extravagant stories about it. But, then, suddenly in 1915 the bubble burst, and those who had purchased the stock during the latter part of the wild speculation were left high and dry.

Gradually Petered Out

The market for the stock steadily diminished, until there came a time when it was very seldom that a sale was publicly recorded. In fact, the stock became only a memory to the average curb broker, and even today there are probably curb houses who believe that this company has practically gone out of business.

But during this period of obscurity, favorable developments had been taking place. The management had been readjusting the business of the company, and on June 1, 1917, stockholders received a sudden surprise with the receipt of a semi-annual dividend of 5%. A still greater surprise was in store for them, when the company paid an extra dividend of 10% on September 1 last, and another semi-annual dividend of 5% on December 1.

Even men who had been interested in the pool operations in 1914 told the writer at the time of the reduction in par value, from $1 to 25 cents per share, that it looked as though the company was through. But they were wrong. As a matter of fact, the company on a comparatively small scale, has been showing very good improvement. When the present head took charge after about one year's operation, there had accumulated a profit and loss deficit of about $225,000. By December 31, 1917, this deficit had not only been wiped out, but the company after paying dividends of $81,907 in 1917, had built up a surplus of $192,334. This was the result of net earnings of $253,704 in 1916, and $241,106 in 1917.

The United Profit Sharing Corporation was organized on April 6, 1914. It was to take over the profit sharing department of the business of the United Cigar Stores Co., and with this as a basis, it was to engage in the business of issuing and redeeming coupons, certificates and other advertising devices, and placing them in the hands of manufacturers and merchants generally, to issue and deliver them to their customers. In other words, it had an affiliated interest with the United Cigar Stores of America, and at the same time planned to go out and get business of the same nature in other fields.

The stock was listed on the New York Curb and for a time transactions in it exceeded that in almost any other issue. There was such a demand for it, that somebody in the company evolved the happy idea of increasing its capital and giving it a still better start. At any rate, the authorized capital was increased from $350,000 to $2,000,000 in December, 1914, and in January, 1915, stockholders received the

right to subscribe at par for $1,400,000 new stock to the extent of 400% of their holdings. Those who had subscribed to the original issue, had an opportunity to make very big profits, as the original stock ran up around $20 per share. As soon as the new stock was listed, however, the price came back very quickly, and continued to decline steadily until it went almost out of sight.

Its First Operations

The company actually did take over the coupon part of the business of the United Cigar Stores. It acquired a well paid and experienced management, and went at the business in a big way. The management was successful in writing a number of contracts, and for a short time there seemed an excellent chance that the company was going to make good in a big way. But the plan was entirely too ambitious, and the results did not justify the highly paid organization which was employed. A readjustment took place.

In this readjustment the United Cigar Stores again took back its coupon department and the United Profit Sharing Corporation retained only the independent contracts which had been written. The highly paid organization was eventually let go, and from present indications the expense of operation is very small. The company does not issue a very illuminative annual report, but simply states the net earnings from operations and from investments, bank deposits, etc., and the use made of such earnings. Its offices are located in the same building with the offices of the United Cigar Stores and on the same floor with the drug department of the latter. In all probability the costs are down to a minimum.

In December, 1916, a plan was approved to reduce the authorized capital stock from $2,000,000 to $500,000, by changing the par value of shares from $1 to $0.25 per share. This plan also called for the distribution of $0.75 per share to

UNITED PROFIT SHARING CORP. (BALANCE SHEET)

Assets (as of December 31)

	1917	1916	1915
Cash	$19,619	$542,079	$958,267
Investments	834,925	580,000	753,938
Furniture and fixtures	13,582	17,317	40,536
Merchandise, supplies, etc	60,726	69,150	78,034
Unexp. insurance	813	508	759
Accts. receivable	209,560	206,196	197,692
Div. accrued (on investments)	10,151	10,150	13,825
Coupon account (contingent)	5,138,919	3,196,290	1,691,924
Profit and loss deficit	....	....	220,568
Total assets	$6,288,295	$4,621,689	$3,905,543
Liabilities			
Capital stock	$409,537	$409,538	$1,638,150
Bal. of cap. distribution due and res. for stockholders	19,928	395,166	....
Accounts and bills payable	134,765	101,922	100,249
Provisional accounts (for contingent liability on coupons, taxes, doubtful accts., fix. depreciation, etc.)	5,531,730	3,681,928	2,167,144
Surplus	*192,334	33,136	....
Total	$6,288,295	$4,621,689	$3,905,543

*Subject to change on account of Federal excess profits tax.

Working Capital

	1917	1916	1915
Current assets	$300,867	$828,083	$1,198,577
Current liabilities	154,693	497,088	100,249
Net working capital	$145,174	$330,995	$1,098,328
Investments	834,925	580,000	753,938
Total	$980,099	$910,995	$1,852,266

stockholders of record of December 15. This distribution was made and of course was immediately written off the price of the stock. The readjustment left the company with an outstanding capital of $409,537.50 of a par value of $0.25 per share.

Coupon Business Troubles

One factor of course which worked against the success of the company was the outcry made against the coupon and premium system by retailers all over the country. Laws were passed which greatly restricted the business. These laws have adversely affected other companies doing a coupon and premium business. But it appears that the greatest objection made to the coupon system is among the retail trade. With the readjustment in its business, therefore, and after the United Cigar Stores coupon business had been eliminated, the management decided to limit its business to manufacturers only, and has further restricted its business among manufacturers making and distributing food products. Retailers object to giving out coupons because it is a charge upon their business, which they feel they ought not to be obliged to meet. But they are willing enough to handle products with which the manufacturer gives a coupon, since the manufacturer by so doing is creating a market and therefore helping their business with no apparent extra charge to them.

The reason for the restriction to food and allied products is that it creates a greater demand for the coupons than would probably be created by going into other lines indiscriminately. That is to say people are constantly eating and drinking and therefore there is a possibility of accumulating a large number of coupons and making it worth while saving them. But the public buys clothes only once in a while, buys furniture the same way, and shoes, utensils and the like. Therefore, the coupons would be slow in coming in, and conversely under the restrictions imposed would not compensate the coupon company as highly as in lines of which the public is purchasing constantly. The United Profit Sharing Corporation had a five year contract with the Beaded Lace Co. I understand that the latter thought the coupon was bringing them no extra business, and therefore the United Profit management was only too pleased to cancel the contract, since it evidently was not bringing them business enough.

Food Products Only

This policy of restricting its business has worked out successfully. Among concerns which carry this company's coupons today are food products of Swift & Co., Princine Food Products, Wrigley's Chewing Gum, Widener Tea, etc. The contracts with these companies have worked out with some profit as indicated by the earnings for the last two years. In 1916 net income was $253,704. Dividends on stock owned made up $49,350, however; interest on loans, etc., made up $34,313, and miscellaneous income was $39,552.

From these sources, therefore, came $123,215, so that the net earnings from operations may be said to have been only $130,489. In the year ended December 31, 1917, total net profits were $241,106. This was made up of $45,200 from dividends on investments, $2,938 from interest on bank deposits, etc., and $192,967 in net earnings from operations. In other words, then, the net earnings from operations for the year increased $62,478, or over 50%. It is evident then that the company has been doing better from its own business and is now getting a greater part of its net earnings from the coupon business instead of from its investments. It is pertinent to note that 1917 earnings have been reported without deduction for the Federal war tax.

The comparative balance sheets for 1915, 1916 and 1917, by careful analysis, indicate pretty well the changes that have taken place in this company in the last two years. At the beginning of 1916 the company had most of the money which had been paid in for its stock. It had this outstanding in loans, bonds and stocks, and this, of course, accounts for its larger earnings from these sources in 1916. At the end of 1916 it still had $395,166 as the balance of capital distribution due and reserved for stockholders. The greater part of this was paid out early in the year 1917. In fact, this was reduced $375,237 during the year.

This payment accounts for the big reduction in cash from $542,000 at the end of 1916 to only $19,619 at the end of 1917. The total decrease in cash was $522,460. The surplus for the year after payment of dividends was $159,198, making a total

of $681,658 which the company would have been able to use throughout the year. As stated $375,237 was used to pay off the balance of distribution to stockholders, and evidently most of the rest was used to add to the company's investments, the book value of which increased $264,925 during the year.

Net Working Capital

The table showing the comparative working capital for the three years indicates very fair improvement in financial condition. To be sure, the 1916 net working capital shows a decrease of about $768,000. This is accounted for by the fact that the capital distribution amounting to $853,375 was made to stockholders in that year. The same applies to the reduction in working capital if we are to include investments at their book value. Net working capital, without taking investments into consideration in 1917, shows a heavy reduction. This, as we have already pointed out, is accounted for through the capital distribution made, which required cash, but the net loss is more than made up by the increase in the book value of the company's investments.

If the investments are carried near their market value, and an analysis of past figures indicates that they are, then the stock at the present time in investments and net working capital has a value of about $0.49 per share. This compares with a present market value of around $0.37 per share. Of course, this makes up practically all of the company's investments, since the value of its coupon account is a very debatable factor. There is a question as to whether, if it became necessary, to sell this good will, it would have a market value.

War Restrictions

The company this year has made a contract with the W. J. Lemcke Brewing Co. by which the latter company will use its coupons in case lots of its new soft drink Cerva. This is the only contract which has been written this year. It is not strange that no progress has been made, because of the fact that the company restricts its business to food products.

Manufacturers do not need to use a premium or any other inducement to sell food products today. In fact, the demand is greater than the supply. Because of this factor, which in all probability will last during the war, it is impossible to draw any definite conclusions as to the company's future while the war lasts. On account of the abnormal factors prevailing today, one cannot say what the future will be. The fact remains, however, that the company after deviating from its ambitious program has done very well in a small way, and is now in good financial condition. The management will make no statement as to whether or not the dividend due on June 1 will be paid. They will evidently meet this problem when it arises.

SUGGESTIONS IN REGARD TO INQUIRIES

The very heavy volume of inquiries which this publication is now receiving makes it necessary to ask our subscribers to co-operate with us in order that we may maintain and improve the high quality of service which the Investor's Personal Service Department renders to our readers. We therefore suggest that:

(1) Not more than two or three inquiries be submitted at one time. Occasionally a subscriber sends in a long list of securities asking for an opinion on each. The careful manner in which the Investors' Personal Service Department handles its inquiries makes it impossible to give such inquiries the immediate attention necessary, without slighting other inquirers.

(2) State if the stocks inquired about are held already and the prices paid. If not held, state if a purchase is contemplated.

(3) Write all inquiries on a *separate* sheet of paper, which should bear the writer's name and address.

(4) Enclose stamp or stamped and addressed envelope.

The above suggestions are drawn up for the benefit and protection of our readers and those inquiries which conform with them will receive first attention.

When a reader wishes a special investigation or a special analysis of a security or a subject we shall be pleased to submit an estimate of the special charge for such work.

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

AETNA EXPLOSIVES—New Committee—Additional opposition to the readjustment plan proposed by Seligman & Co. for the Co. appeared in a new committee of stockholders headed by Joseph N. Lovell of the Stock Exchange firm of Lovell & Co. Announcement was made that the committee represented more than 100,000 shares and would send a circular to stockowners soon, asking that proxies for the adjourned annual meeting be sent to F. E. Fenton, secretary of the Aetna Co. The proxies, it was said, would be voted against the election of directors who favor the readjustment program.

CURTISS AEROPLANE — Hempstead Plant Not Closed—An official of the Co. stated that reports to the effect that the plant at Hempstead is at a standstill, with manufacturing work practically stopped in order to make rigid inspections of the work already done, is without foundation. The plant is running at full capacity and has more men on its payroll than at any time in the past.

FEDERAL DYESTUFF—Sale of Property Discussed—Reports are current that the du Pont interests have made an offer of $3,100,000 for Federal Dyestuff property. While no official confirmation of the price could be obtained, it was learned from one of the receivers that there had been some talk between the two concerns regarding the sale of the plant. The sum under discussion, this receiver said, was sufficient, if the proposition went through, to leave the company in a position to take care of its notes. This is dependent on the elimination of certain disputed claims. If the matter of these claims were settled as the receivers expected it to be, there would be enough upon the successful conclusion of the present negotiations not only to take care of the notes, but to provide something for the preferred stock.

FEDERAL SUGAR—Stocks to Receive Distribution—Holders of certificates of deposit of preferred and common stocks under an agreement dated June 19, 1917, between Charles D. Barney & Co. and C. A. Spreckles & Co., have been advised by the Equitable Trust Co. to present their certificates in order to receive distribution of $6.16 a share on account of principal and 30 cents a share on account of interest, from the proceeds of the payment made by Mr. Spreckles in accordance with the terms of the agreement for common stock of the Federal Sugar Refining Co. withdrawn thereunder.

GRAY & DAVIS—Wipes Out Floating Debt—Co. has paid off the final 20% of its bank debts and merchandise creditor obligations. These amounted to $480,000. This wipes out an original debt of $2,400,000 and leaves the company without bonded or floating debt. The property and earnings power are now the possession of the $600,000 of preferred and the $1,250,000 of common. The improvement has been effected by an advance in the preferred from a low of 40 to 78 and in the common from 8 to 16. The par of the common is $25 and of the preferred $100. Certain interests expect to see preferred dividends resumed some time this year.

HEYWOOD BROS. & WAKEFIELD—Earned $65 a Share in 1917—Profits for 1917 were approximately $2,191,000 figured as follows: $1,561,000 increase in profit and loss surplus; $240,000 preferred dividends and $390,000 common dividends (8% cash and 5% in Liberty Bonds). The balance for the $3,000,000 common is $1,951,000, or $65 a share, compared with $1,615,000 in 1916, or $46. Turn over last year just fell short of the $10,000,000 mark, gross sales totaling $9,800,000, as contrasted with $8,750,000 in 1916.

INTERNATIONAL MOTOR TRUCK—Earned $11.20 a Share on Common 1917—Reports net profits amounting to $1,127,093 in 1917, equal to approximately $11.20 a share on common stock after making reservation for the preferred stock dividends. The balance sheet issued recently showed cash totaling $2,227,853, a gain of $1,513,786 over the preceding year. Assets on Dec. 31 amounted to $12,704,372, a gain of $4,228,351. The shares selling around 22 have never been listed since the reorganization of the predecessor company. They are dealt in between houses informally.

MARLIN ARMS—$40,000,000 of War Apparatus—Company in 1918 on the basis of orders in hand established will produce fully $40,000,000 of gross business. This is a remarkable volume of output for a corporation with only $1,000,000 of notes and about 68,000 shares of stock. The company is understood to be making 300 of the so-called Marlin machine guns per day and some heavy Brownings similar to those which Westinghouse is turning out. The Marlin people have done fully as well with the big Browning as Westinghouse and started production five months after the original order was taken. The Marlin gun is largely for aeroplane work. It is synchronized to fire between the blade of the propeller even up to 1,800 to 1,900 revolutions per minute. In many of the planes which this country will have there will be two Marlin guns.

TOPICS FOR TRADERS

Market Position of Central Leather Common

One of the "War Brides" of 1916 Which Still Appears to Be Under Liquidation—Its Interesting Market History

By THOS. L. SEXSMITH

SPEAKING of the Central Leather Company, a writer in one of the financial journals recently said that this company had at the end of 1917 a profit and loss surplus equal to $72 per share on the common stock. This is $10 a share more than the stock sold at its low quotation on Monday, March 25, 1918.

Many holders of the common issue are doubtless wondering why the shares of a company in such an apparently strong financial position should sell so low. Net earnings on the common stock for 1916 were 33.14%, while net earnings for 1917 were 30.44%. The total earnings for these two years amount to practically as much as the current market quotation for the stock.

Falling Earnings a Factor

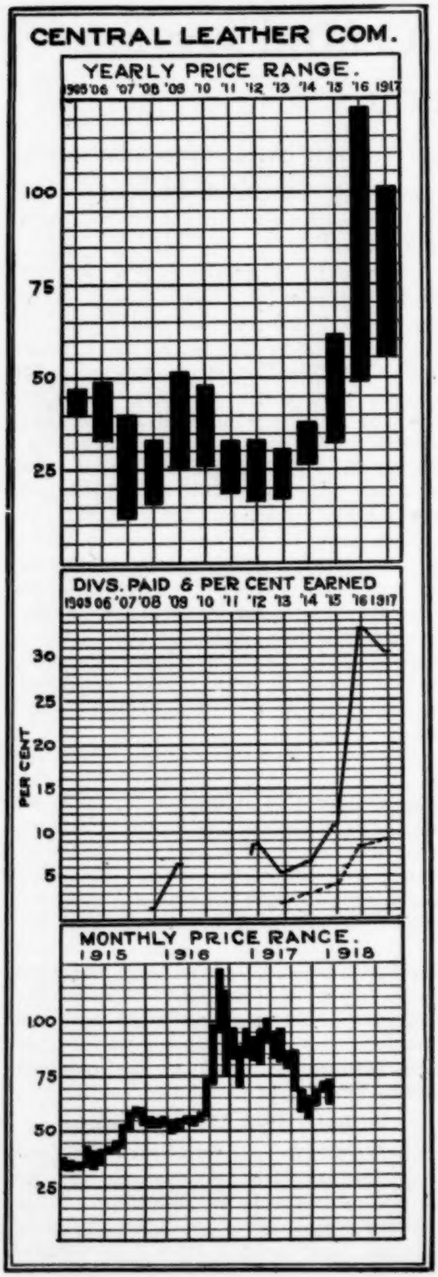
It is commonly understood that the backwardness of Central Leather in the present market is largely due to the fact that during the last year there occurred a decided slump not only in volume of sales but in the net profits of the company. The figures show that during the year 1916 the company's profits were on an ascending scale. Net earnings moved up from $2,554,151 during the March, 1916, quarter, to $6,623,500 during the final three months of 1916. The course of earnings throughout 1917 were practically the reverse. Net profits of $6,334,623 in the March quarter were much larger than in any other three months in the company's history, but were followed by progressive declines, with the net for the December quarter dwindling down to $1,635,439. The company earned four times as much in the March quarter as in the final quarter, which is normally the best quarter of the year.

This radical difference in the two years is also indicated by a comparison of sales. During 1917 the company sold a total of 7,241,831 sides of sole, belting and harness leather. While this might appear to be a considerable volume of business, it is, in fact, the smallest volume of leather sales handled in ten years. It represented a decrease of 27.07% from the total leather sales of 1916, while both 1910 and 1912 had even a larger volume of sales than 1916. A further study of the report for the year's business shows that around the middle of the year there was a very sharp let-up in domestic demand for leather. Foreign demand also lessened about the same time, so that in the final half of the year the company's operations were probably conducted at not over 60% of average tannery capacity.

While it is thus seen that the falling off in leather sales during the last half of the year amounted to at least 30%, the gross sales for the year, measured in dollars, showed a falling off of only $1,516,004, or 1.06%. It is quickly apparent, then, that the volume of gross last year was sustained not by the bigness of the business done, but by the tremendously high prices obtained for products sold. Doubtlessly, the high prices which the company received for lumber, and the large profits thereon, contributed materially to the percentage of gross and net profits earned by the company during the past year.

An Early Bull Market Favorite

Granted that the trend of earnings of the company has been downward for the last several months, it is still difficult to account for the current action of the stock in the market. For several years past Central Leather common has been the vehicle for some highly interesting pool operations.



The rapid expansion of the earnings position of the company since 1911 greatly favored bullish manipulations in this stock. The position of the general market, during 1915 and 1916, made it comparatively easy to advance the stock to prices far beyond any hitherto recorded. Since 1916 general market conditions have generally been unfavorable to the bullish side, and stocks, as a whole, have declined sharply, regardless of earnings.

In order to understand the position of Central Leather from a stock market standpoint, it is necessary to briefly review the market history of the stock. Organized in 1905, the highest price at which the common issue ever sold, previous to 1907, was 49⅞, made in 1906. During the famous panic of 1907 it broke down to 11⅞, and during the decline, no doubt, many of the earlier speculative buyers of this stock were either wiped out or persuaded to dispose of their holdings. Only those who thoroughly believed in the future of Central Leather, or those who were in a position to hold on—come what may—retained their original purchases.

In the bull market which followed the panic, Central Leather was advanced to 51¾, a new record high. Some lively distribution evidently took place during 1909 and 1910, after which a decline to 18¾ came in 1911. This was not far above the panic levels for the stock, although the average market, at the time, held well above the lowest levels of 1907.

When Accumulation Took Place

An interesting feature of the market career of this stock at this point is the fact that for three years it covered practically the same price territory yearly. In 1911 its low was 18¾; in 1912, 16½, and in 1913 17; while the high for each of the three years was 33⅜, 33⅝ and 30⅛, respectively. It was in this narrow price range that a quietly conducted accumulation of Central Leather was effected. The confident buying of this stock began to show signs of aggressiveness as early as 1914, when the high for the year was lifted to 38⅛, higher than any time during the previous three years. During this year Central Leather did not react below the center of the range of the three preceding years. It will be recalled that 1914 was a bear year in the

market generally, with average prices, when the war broke out, at the lowest since 1907.

The wonderful bull markets of 1915, 1916 and part of 1917 furnished excellent opportunities for a thorough distribution of Central Leather. The graph which shows the monthly price movements for the last three years, published herewith, quite clearly indicates where the bulk of this distribution took place. The real "marking up" of Central Leather did not begin until September, 1916, and once begun it was continued, with hardly a let-up, for three months, reaching record high price at 123 in November. Much stock was undoubtedly sold on the way up. Note how quiet the price action was during the eight months preceding the sensational advance. The extreme price fluctuation for the period of quietness was less than ten points—after that, "the deluge."

Sold Steadily During 1917

As is the case in most successful distributive campaigns, the larger bulk of the selling was effected during the months which followed that which had the highest market price. It is now apparent that practically the entire year—at least the first nine months—of 1917 were devoted to the distribution of this stock. From March to September, Central Leather's fluctuations were contained between the figures 82 and 101½. These seven months of price churning, at an average price well above the average of the year before, gave ample opportunity for working off the stock which pools still had for sale. Having sold as high as 123 only the fall before, and as earnings were understood, at the time, to be holding up wonderfully well, the stock actually looked attractive to thousands of buyers throughout most of the year 1917.

Following this distributive selling, Central Leather declined rapidly during October, November and December. On the twentieth of December it sold down as low as 55, at which price it was again well down into the price level around which the final accumulation had been conducted during 1915 and 1916. There it undoubtedly met support from those interests which were largely responsible for the great advance which took place in the fall of 1916. From the December low point it rallied to above 73 in March, losing more than one-half its recovery before the close of that month.

Relative Weakness Indicated

Comparing the action of this stock with that of a group of industrial issues, it will be seen that Central Leather has not rallied to the same extent as the general market. The recovery since December measured by an average of twenty industrials, has been about 50% of the loss from June, 1917, to December, 1917. Central Leather's recovery, at its highest price in March, was approximately one-third of its loss since June. In this respect it has shown itself to be in a technically weaker position than the average stock of its class. Its reaction from the high of the present year has so far been relatively larger than that of the average market.

Difficult to Forecast

What the prospects for improvement in the earnings position of Central Leather are at the present time no one, perhaps, may know outside of those who are in closest touch with the affairs of the company and also thoroughly understand leather trade conditions. Judging from the past market history of the stock, however, it is quite probable that any prospects for a coming improvement in earnings will be foreshadowed, or at least accompanied, by a more or less extended period of reaccumulation of the stock in the open market. Some of the recent action of the stock suggests that the early phase of this reaccumulation may have already begun. Many months were required in which to complete accumulation in the past, and it is unlikely, in view of the prevailing market situation, that the buying by the right interests in the stock will be unduly hurried at this time.

Do not let the volume of printed matter or written material that you get about a security affect you one whit. The more is said, the more easy it is to confuse. It is not the quantity but the quality of the information that should count.

It should be remembered that in many cases it is much easier to buy bonds than to sell them. The buying is often done when the issue is active. The selling is often attempted when the issue has been pretty well absorbed and it is harder to find takers than when many are trading in it.

How to Interpret Your Broker's Statement

The Account of Mr. Charles Brown and How He Unravelled It—Checking the Interest—What the Different Entries Mean and How to Discover Errors

By ROBERT L. SMITLEY

MR. CHARLES BROWN is a business man who sometimes speculates but more often invests. We publish herewith a statement from Mr. Brown's brokers. Mr. Brown is very unlike most men who take it for granted that the statement is correct and file or toss it in the waste basket. Mr. Brown analyzes his statement and is sure that he gets all that is due him.

The Analysis

We will permit Mr. Brown to talk out loud for the benefit of those who get statements from brokers:

"On March 4 I find that my broker gave me credit for a check I deposited with him for $2,500 drawn on Boston. He has also charged me $10,000 for the 100 Steel I purchased at 99⅞, which with $12.50 commission totals the right amount. I also bought $10,000 Iowa Cent. 4% bonds and the commission was $12.50 and the interest accrued (paid to the seller) $4.44, which is 4 days at 4% on $10,000, inasmuch as the interest periods of the bonds are March and September. This gives me a total debit balance as shown on the statement of $12,004.44 and that balance remained the same for 2 days so that the extension of interest at 6%, amounting to $4 is correct.

"On the sixth I gave him a check for the exact cost of the bonds and left the bonds with him. This brought my debit balance down to an even $7,500, and it remained that way for one day so that the 6% interest extension of $1.25 is correct. On the seventh I bought 100 shares of Delaware & Hudson at par and the debit extension is correct and the interest extensions are also correct—4 days at 6% on $17,512.50 amounting to $11.67. On the eighth I sold short 100 Nickel. This appears on my statement in red ink (represented here by italics). Some brokers give a separate statement for short sales, but my account is not active enough for this. Of course, I do not get any credit for the money on this short sale, because the broker was compelled to borrow the stock and pay out a like amount, which item does not appear in my account but in his office accounts.

"I noticed in the newspapers that Del. & Hudson was loaning at premium. I wondered if my broker would take the opportunity to lend my stock. I would have noticed it had he not done so. He has given me a credit of $6.25 or a premium of one thirty-second of one per cent for each day of the two that the stock loaned at a premium.

"On the fourteenth I found that I had a profit on those Iowa bonds and so let them go at 46. Mr. Broker has deducted the $12.50 commission from $4,600, and also deducted the accrued interest for 14 days. He had no business to do this; for I am entitled to this interest. I, the seller, get the accrued interest and I am due from Messrs. Smith & Co. twice this amount plus interest on it until the date I took up my account. I am glad I checked this statement, for that $31.06 will come in handy.

"Inasmuch as the brokers had these bonds for delivery they got the money at once from the buyer and I get credit for the amount. I drew a draft on them for the amount they notified me as being the proceeds of the sale—of course the wrong amount—and note that I was debited with it on the eighteenth, when the draft was presented for payment.

Steel Ex-Dividend

"Steel common was ex-dividend on the sixth, two days after I bought it, so that I was entitled to this dividend which was payable on the twentieth. I noted in the newspapers that the amount was 4¼%,

and I find that I am rightly credited with $425. This is one of the things that I must closely watch as there are frequent errors in brokers' offices on the apportionment of dividends. On the eighth I had sold 100 Nickel short and on the ninth this stock sold ex-dividend 1%. It was payable on the twenty-fifth of the month and on that date I am rightfully charged with $100, for I was under the necessity of paying this amount to the man from whom I had borrowed my stock against my short sale. Some brokers charge dividends the day the stock sells ex-dividend to prevent the customer from closing out his account and owing this money when it is due, but I guess Smith & Co. would have reserved this amount had I taken the account up before the twenty-fifth.

EQUITY TEST

As of March 31, 1918. Prices as of 3/31/18.

Debit Balance	$164.63	
100 Nor. Pac. @ 85	8,500.00	
Commissions and Tax	40.55	
100 Steel @ 98		$9,800.00
50 W. O. @ 18		900.00
20 Gt. Nor. Pfd. @ 100		2,000.00
	$8,705.18	$12,700.00
		8,705.18
Equity		$3,994.82
Deposited	$2,500.00	
50 W. O.	900.00	3,400.00
Profit		$594.82

PROOF OF PROFIT

Paper Loss Steel Com.	$216.50	
Dividend 100 Nickel	100.00	
Loss on Nickel	116.50	
Paper Loss Gt. Nor. Pfd.	5.80	
Paper Loss W. O.	8.25	
Interest	43.88	
Premium D. & H.		6.25
Dividend on Steel		425.00
Profit on D. & H.		183.50
Paper Profit Nor. Pac.		471.00
	$490.93	$1,085.75
		490.93
Profit, as above		$594.82

"On the twenty-sixth of the month I bought in the 100 Nickel at a net loss of $116.50. This entry is made in red ink and the loss added to my debit making the total debit for that day $17,297.75. Of course the principal amounts for sales and purchase on these shorts are not taken into consideration for debits in figuring interest, but only the actual loss or gain after the trade is completed. When Smith & Co. paid for the stock purchased against the short sale, they at once returned the borrowed stock and received an approximate like sum of money.

"On that day, the 26th, I delivered to them 50 shares of Willys-Overland common stock as additional margin. I note that there are no money items against this amount, which is correct. On the next day I sold my Del. & Hudson at a 2⅛ point profit, less commissions and tax—the tax being two cents a share, par $100, for New York State and a like amount for the United States Government, making in all $4 for the 100 shares. The extension is correct as is likewise the change in credit balance, always keeping in mind the error of the Iowa Cent. bonds.

Short Sale of Northern Pacific

"On the twenty-seventh, I also sold 100 shares of Northern Pacific short. This item is similar to the previous short sale and no change in my debit balance for interest figuring is made. On the next day I purchased an odd lot of Great Northern preferred stock at par—20 shares—and find the extension correct, etc.

"I have checked up each item of interest charge and find the items correct. The interest balance at 6% is $65.82. I have noted that money has been very reasonable lately and find that I am only charged with 4%. Two thirds of $65.82—or 6%—is $43.88, with which amount I am debited.

"Taking all amounts into consideration, including the short sale, I find that $164.63 is brought down in the debit column to commence the month of April—for the broker has put both months on the same statement for the purpose of my checking it. I know that the balance for figuring the interest, however, is not the same as the actual debit figures because of the short sale of Nor. Pac. The broker must keep his borrowed stock paid for at the market price and when a statement is rendered to the customer, the closing price of the short sale stock is taken as of the day the statement is rendered. On March thirty-first Nor. Pac. closed at 85, so the broker figures the 100 shares at $8,500,

THE BROKER'S STATEMENT

CUSTOMERS ARE REQUESTED TO EXAMINE STATEMENTS, AND ADVISE IMMEDIATELY OF ANY ERRORS.

Mr. CHARLES BROWN — *In Account with SMITH & CO.*

Date 1918	Shares		Price	Shares		Price	Dr.	Cr.	Dr. Balance	Cr. Balance	Days	Dr. Int.	Cr. Int.
March 4	To			By	Ck. on 1st N/B Boston			$2,500.00		$2,500.00			
	100	Steel com.	99⅞				$10,000.00		$7,500.00				
	10M.	Iowa Cent. 1st 4s	44⅞ & int				4,504.44		12,004.44		2	$4.00	
" 6					Ck. on Park Bk, N. Y.			4,504.44	7,500.00		1	1.25	
" 7	100	Del & Hud	100				10,012.50		17,512.50		4	11.67	
" *8*				*100*	*Int. Nickel†*	*29*		*2,883.50†*					
" 11					2 day prem. 100 D. & H.	(1/32)		6.25	17,506.25		3	8.75	
" 14				10M.	Iowa Cent. 1st 4s	46		4,571.97*	12,934.28		4	8.62	
" 18		Draft					4,571.97		17,506.25		2	5.83	
" 20					Dividend, 100 Steel			425.00	17,081.25		5	14.23	
" 25		Dividend, 100 Nickel					100.00		17,181.25		1	2.86	
" *26*	*100*	*Int. Nickel†*	*29⅞*				*3,000.00**		17,297.75		1	2.88	
	50	W. O.	Recd.				0.00						
" 27				100	Del. & Hud	102⅛		10,196.00	7,101.75		1	1.18	
" 27				*100*	*Nor. Pac.*	*90*		*8,983.50**					
" 28	20	Gt. Nor. Pfd	100				2,002.50		9,104.25		3	4.55	
" 31		Int. 4%					43.88					Bal.	65.82
					Bal.			164.63					
							$34,235.29	$34,235.29				$65.82	$65.82
March 31		Balance		*Short*	*100 Nor. Pac.*	*85†*	164.63		8,664.63		3	$4.33	
	Long	100 Steel											
		50 W. O.											
		20 Gt. Nor. Pfd.											
April 3	100	Union Pac.	118⅛				11,825.00						
" 3				100	Union Pac.	119		11,883.50	8,606.13		3	4.29	
" 6	*100*	*Nor. Pac.*	*87†*				*8,712.50†*		8,818.63		9	13.21	
" 7				10M.	C. B. & Q Jt. 4s	96		9,695.26					
" 9	10M.	C. B. & Q Jt. 4s, red. on draft Park Bk.					9,695.26						
" 15				100	Steel	97		9,683.50					
				20	Gt. Nor Pfd	98		1,956.70		2,821.57	1		$0.47
" 16				50	W. O.	Deld.				0.00		Bal.	21.35
		Int. 4%					14.24						
		Check to C. B.					2,807.33						
							$33,218.96	$33,218.96				$21.83	$21.83

E. & O. E. *SMITH & CO.*
J.

* Error of bookkeeper. Interest amounting to $15.53 should have been added, not deducted.
† Short sale items in italics. They appear on the statement in red ink.

adds the actual debit balance to it and takes the total of $164.63 and $8,500—or $8,664.63—as the basis for charging interest. This is sometimes confusing to customers, but after it is clearly understood there is no trouble in the future. Of course all customers, not understanding this method, should have it clearly explained.

"I also find that I am long 100 Steel, 50 W. O. and 20 Gt. Nor. pfd. in addition to being short 100 Nor. Pac. I check this up by balancing the total of debit and credit shares of the previous month's statement and being sure that the right stock is listed on the statement.

Interest Adjustment

"On April 3 I bought and sold 100 Union Pac. I used to wonder why the balance was changed and interest charged for a transaction completed on the same day, but I soon realized that when either a profit or loss occurred, the amount in question must be taken into consideration for interest adjustment. In this case I made $58.50, which reduced my balance that amount and in consequence I gained a few pennies in interest.

"On the sixth I bought in my 100 Nor. Pac. at 87. This was a net profit of 3 points less commissions and tax, but because I had been adjusted at a profit of 5 points the first of the month when Nor. Pac. closed at 85, so far as my statement was concerned I had to add the difference between 85 and the net purchase price, or $212.50 to my debit balance. Consequently the debit April sixth of $8,818.63 is correct excepting the error to be adjusted on the Iowa bonds from the previous month.

"On the next day, the seventh, Smith & Co. sold for me 10M Chicago, Burlington & Quincy jt. gtd. 4% bonds which I had owned as an investment for some years. Inasmuch as the interest periods of these bonds are January and July 1, there was 3 months and 7 days accrued interest due me. Interest is always figured as to the day of delivery. In this case the bonds had been sold on the sixth, but when sold regular way they, like stock, are not delivered until the following day. When either bonds or stock are sold regular way on Friday or Saturday, the delivery day is the following Monday. In computing interest or arriving at balances this fact must always be considered. But here again was another exception. Smith & Co. did not have the bonds I had sold and therefore could not deliver them until I sent them in. Not delivering them to the buyer they could not receive payment for them, so that I was not entitled to any interest. It was not until the ninth that my bank delivered these bonds for the sale amount. The interest for 3 months, 7 days—360-day a year computation—amounted to $107.76. I received this from the buyer plus the price for the principal, $9,600, less the commission of $12.50.

"On the fifteenth I sold out the remaining speculative stocks in the account and carefully checked up the extensions. I found that I had a credit balance of $2,821.57 and my 50 shares of W. O. left. I asked Smith & Co. to give me my statement to the next day. They charged me 4% interest, the same as last month. In checking up the 6% extensions for April, I found that the book-keeper had made an error of two cents. The interest item of $4.29 should have been $4.30 and the $13.21 should have been $13.22. But in changing over the balance to 4% the amounts were too insignificent to be noticed, so I passed them over.

"The total interest charge was $14.24 at 4% and this was deducted from my balance and a check given to me for $2,807.33 with my 50 shares of W. O. This item appears on the statement.

"I had noted, however, that on the twenty-ninth of March, one day after my purchase of 20 Gt. Nor. pfd. that this stock sold ex-dividend, payable April 30. The amount was 1¾%. Nothing appeared on my statement to show me that I was entitled to this money when due, so I will make claim on Smith & Co. and am sure that the matter will be adjusted. However, this credit due should have been noted on the statement. I will also make claim for the error of $31.06 on the Iowa Cent. bonds sold in March. I am due therefore $35 and $31.06, making a total of $66.06, which I might never have recovered had I not carefully checked up my statement.

"To satisfy myself I figured up the equity—actual money value in my account as of March thirty-first—according to the statement, and I proved the items as shown in the accompanying table."

Technical and Miscellaneous Inquiries

Old Order Not Cancelled

Q.—On March 13 I wrote my broker as follows: "I have decided that the market is not a good one to be in. So close out my account, figure up my balance, and buy whatever number of shares outright you have money for in Willys-Overland. If it turns out I owe you a few dollars or you owe me we can settle."

My broker followed my instructions, but did not cancel an old "open" or "good till cancelled" order which I had previously placed to buy Canadian Pacific. This order was executed the same day that my account was closed as above. My broker claims that an open order holds good even after an account is closed. Is this correct?—W., Dayton, O.

Ans.—We think your broker was negligent in the matter, since your letter plainly indicated your intention to discontinue trading, with the exception of your purchase of Willys-Overland outright. We doubt, however, whether you have any legal remedy. An order given "good till cancelled" means what it says, and if you had never cancelled it you would have difficulty in showing that your broker should have seen from your general handling of your account that you wanted it cancelled.

Your broker's negligence, in our opinion, consisted in not telephoning or telegraphing you to ask whether you desired to cancel the order to buy Canadian Pacific. We see no reason why he should not have done that. But since your own negligence in not cancelling the order contributed to the mistake, your position at law would be rather weak.

We believe you are warranted in feeling dissatisfaction and if you should decide to change brokers we think your present broker would have no reasonable ground for being aggrieved. His handling of your account was, in our judgment, not as careful as it should have been.

Stock Transactions

Q.—I notice that total stock transactions for the day, as given by various newspapers, do not agree with the totals of the shares traded in for each stock separately. I would appreciate your explanation of this point.—B. W., Richmond, Va.

Ans.—None of the newspapers are accurate in handling stock transactions. One reason for the difference you mention is that the total for the day usually includes odd lot transactions while the separate totals as given for each stock include only 100 share lots. However, that is far from covering the differences that will be observed by the student of the market who compares various papers. Any one who wishes to make use of total transactions in studying the market should take two or three of the leading New York morning newspapers and compare the totals shown. The evening papers are much less reliable, as the figures have to be so hastily compiled. Little is gained by averaging the various newspapers' figures, for self-evident typographical errors are quite common. But by consulting a number of papers the investor can usually form an approximate idea of the business for the day which will answer his purposes.

Banking Statistics

Q.—Do you expect a further fall in the per cent. of the Federal Reserve Banks' reserves against their outstanding notes? If the gold reserve falls below the 40% limit, will this be likely to cause another panic, as in 1903, 1907, etc.? Do you consider it worth while now to keep a record of the excess of loans over deposits in New York Clearing House banks?—J. P., Plainfield, N. J.

Ans.—The value of all business statistics is at a discount now because of the great changes resulting from the war.

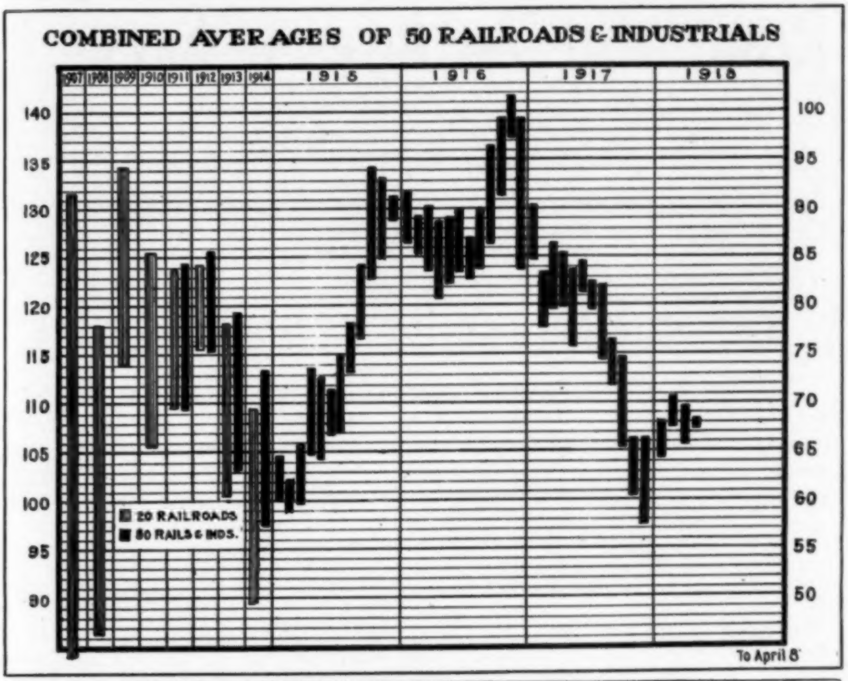
Yes, we expect a further fall in the per cent. of reserves to Federal notes. How far the fall will go no one can predict. The system, however, provides much greater elasticity than the old banking methods, so that no money panic like that of 1907 is likely to occur. Over-extension of loans should be gradually checked by the slow rise of money rates as reserves begin to run low.

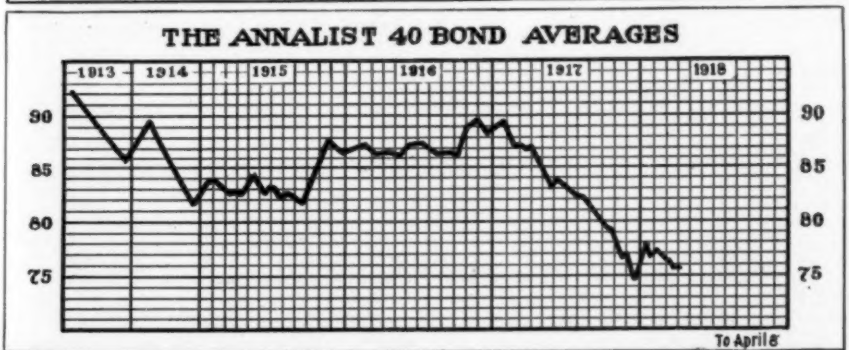
It would be a good idea for you to keep along your figures showing New York Clearing House Banks loans and deposits, just to see how they work out under the new conditions.

Conversion of Liberty 3½s

Q.—I bought Liberty 3½s on partial payments through a savings bank. The bank claims to have written me asking for my permission to convert these bonds into the 4s, and not having received any answer, assumed that I wished the conversion made. They now claim that I must accept the 4% bonds. Can I legally demand delivery of the 3½s?—C. S., New York City.

Ans.—Yes, unless your contract for the purchase of the bonds on the partial payment plan contains some provision which would permit the bank to make the conversion without your authorization.





MARKET STATISTICS

	Dow-Jones Avgs. 40 Bonds	20 Indus.	20 Rails	50 Stocks High	Low	Total Sales	Breadth (No. Issues)
Monday, March 25......	75.92	76.45	79.16	66.86	65.67	655,500	189
Tuesday, " 26......	75.90	76.49	79.42	67.20	66.42	371,800	169
Wednesday, " 27......	75.85	76.72	79.82	67.48	66.72	322,400	158
Thursday, " 28......	75.84	76.41	79.72	67.66	66.87	336,600	159
Friday, " 29......	STOCK EXCHANGE CLOSED (GOOD FRIDAY)						
Saturday, " 30......	75.87	76.72	79.98	67.44	67.16	99,300	96
Monday, April 1......	75.82	77.16	80.20	67.88	67.46	180,900	138
Tuesday, " 2......	75.79	76.69	79.53	67.59	67.17	157,200	143
Wednesday, " 3......	75.82	77.01	79.67	67.59	67.29	174,300	138
Thursday, " 4......	75.82	77.42	79.81	67.99	67.59	214,200	154
Friday, " 5......	75.84	77.03	79.51	67.82	67.41	145,500	136
Saturday, " 6......	75.86	77.95	80.08	68.26	67.87	209,700	135